Building Momentum

[1996]

Annual Report

J.C. Penney Company, Inc.

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Building Momentum. *JCPenney has grown up with America. We have provided consumers with outstanding products and service at increasing values for generations.*

We know about change. In our 95-year history, there have been many business cycles – outstanding years, average years, disappointing years. But from each cycle, we have learned more. More about the customer. And more about the dynamics of retailing. In the process we have found new and more productive ways to manage and grow our business.

JCPenney has reinvented itself, generation after generation, to meet the challenges of the day while always keeping an eye on what the future may hold.

As we approach the 21st century and the start of our second century in business, we are still moving at the speed of change. And as the pace of change accelerates, we are building momentum for even greater things to come.

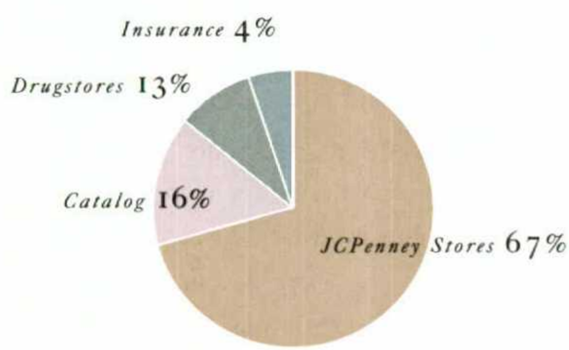
($ in millions except per share data)	1996	1995	1994	1993	1992
Total revenue	$23,649	$21,419	$21,082	$19,578	$18,515
Earnings before business acquisition					
and consolidation expenses, net of tax	793	838	1,057	944	777
per share	3.17	3.33	4.05	3.53	2.95
Net income	565	838	1,057	940	777
per share	2.25	3.33	4.05	3.53	2.95
EBITDA (1)	2,198	2,200	2,485	2,331	2,068
EBITDA as a per cent of total revenue	9.3%	10.3%	11.8%	11.9%	11.2%
Total assets	22,088	17,102	16,202	14,788	13,467
Dividends per share	2.08	1.92	1.68	1.44	1.32
Capital expenditures	790	749	544	459	494
Debt to capital ratio	60.1% (2)	52.6%	53.1%	51.1%	53.2%

(1) Earnings before business acquisition and consolidation expenses, interest, taxes, depreciation and amortization, including intangibles.

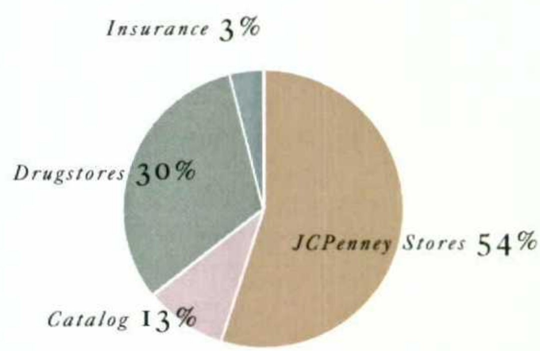
(2) Assumes the completion of the Eckerd transaction.

REVENUE

1996 Actual



1996 Pro Forma*



*Includes sales for Eckerd and Fay's for the entire year.

James E. Oesterreicher, Chairman of the Board and Chief Executive Officer (left), and W. Barger Tygart, President and Chief Operating Officer.

JCPenney took major strides in 1996 to position the Company for profitable growth. By aligning our portfolio of businesses to match the Company's expertise in merchandising and marketing, we are creating opportunities to serve current and future customers better. And with each step, we are building momentum toward providing enhanced returns for you, our stockholders.

The management initiatives undertaken during the year reflect our commitment to focus our attention and resources on our key business areas with a goal of raising profitability and value for stockholders. Keeping our customer focus is crucial to our success.

The acquisitions we made in the drugstore sector during 1996, and the pending divestiture of most of our banking assets, reflect important customer demographic and lifestyle changes. They also have brought into sharper focus the key businesses that meet our criteria for market leadership: department stores, catalog, drugstores, and insurance.

We are determined to capitalize on our knowledge of the customer to intelligently market the entire array of products and services our businesses can offer.

JCPenney Stores, Catalog, Drugstores, and our Insurance Group each offer unique products and services, with a common link: the customer. Much of the knowledge and expertise available to any one of our business segments can be harnessed and used for the benefit of the whole.

Our long and proud heritage stems from our experience in stores, and they continue to attract the attention worthy of our largest business segment. JCPenney is one of America's leading department stores, with sales of $15.7 billion in fiscal 1996. Our stores occupy key anchor positions in most premier shopping malls.

To continue to make our stores a destination for customers, we are committed to a store modernization program to reconfigure selected stores to increase net selling space and enhance the shopping experience. As with all capital investments, modernizations must meet the Company's investment hurdle rate.

We are sharpening our marketing message as evidenced by our new advertising theme: "JCPenney: I Love Your Style." We are moving forward with merchandising dominance through the JCPenney Home Store concept – free-standing home-furnishing stores, currently in 17 locations, that allow us to exploit our strong market share in home lines while freeing space in our department stores for apparel lines.

Last year we succeeded in complementing our core department store and catalog operations with a greatly expanded presence in drugstores, a channel of distribution where we see growth opportunities.

The combination of Eckerd Corporation and Fay's

Incorporated with our Thrift Drug unit gives us a leadership position in this increasingly important sector. We are fortunate to have a highly experienced, talented management team in our newly combined drugstore operations. The new team is headed by Frank Newman, chief executive officer of the combined operations, and includes management of both Thrift and Eckerd.

With 2,699 drugstores in 23 states, we now have the size, buying power, and geographic reach to compete effectively in an industry that is rapidly consolidating.

In Catalog, we are making progress in our program to make sophisticated use of our vast array of customer data. This is helping us target the more than 400 million catalogs we distribute each year to those customers who are most likely to purchase from them. At the same time, we are replacing our least profitable specialty catalogs with some promising new catalogs for 1997.

The JCPenney Insurance Group is the nation's No. 1 mass marketer of group life and health products and is a strong contributor to Company earnings. The Insurance Group has achieved strong growth in recent years by developing business relationships with major banks, retailers, and oil companies for marketing insurance products to their credit customers. It is also fueling growth by entering new markets and by adding non-insurance products, such as health-care discount programs. We believe our substantial new presence in the drugstore sector will yield attractive new opportunities to expand the offerings of non-insurance services.

The ability to underwrite the Company's growth and make opportunistic moves requires a strong financial foundation. We are proud to report that your Company remains in excellent financial health, with a strong balance sheet and substantial financial flexibility. Even with the additional debt we incurred as a result of our drugstore acquisitions in 1996, our debt ratings remain among the highest in the retail industry. Moreover, we are satisfied that our current debt profile appropriately reflects the changed characteristics of our portfolio of businesses.

The first half of 1996 was disappointing, and as we reacted to build our business aggressively, inventories rose to a level higher than needed to meet demand. This situation is being rectified, and we are optimistic about 1997 and beyond. Reflecting its confidence in the prospects for profitable growth, your Board of Directors declared a dividend increase on March 12, 1997. We are well positioned and determined to get better leverage beginning in 1997.

Earnings for the fiscal year ended January 25, 1997, before business acquisition and consolidation expenses were $793 million, or $3.17 per share on a fully diluted basis. These charges, which totaled $228 million net of tax, or 92 cents per share, included expenses primarily related to drugstore acquisitions. Including the effects of these charges, net income for 1996 was $565 million, or $2.25 per share. This compares with $838 million, or $3.33 per share, for fiscal 1995. Revenues for 1996 were $23.6 billion, compared with $21.4 billion in 1995.

Looking ahead, our current capital plans call for

spending more than $1 billion per year over the next three years, mostly for department stores, drugstores, and modernizations that will help us maintain our competitiveness and our ability to generate attractive returns for stockholders.

The following pages highlight in greater detail the progress we are making and the steps we are taking to boost profitability in each business segment. To help investors monitor that progress, we are providing more detailed financial data for each business segment.

Just as important to our future success as our financial strength is our people. We are blessed with talented associates committed to serving the customers we depend on for our success.

W. R. Howell retired from the Board as the Company's sixth chairman. He was a dedicated leader, guiding the Company through many changes while keeping it focused on service, quality, and value. We pay tribute to his many achievements.

We are excited about the future and the ways in which we are building momentum. We appreciate your support and investment in JCPenney, and we are committed to providing you the return you expected when you placed your trust in us.

Jim Oesterreicher

James E. Oesterreicher
Chairman of the Board
and Chief Executive Officer

Barger Tygart

W. Barger Tygart
President and
Chief Operating Officer

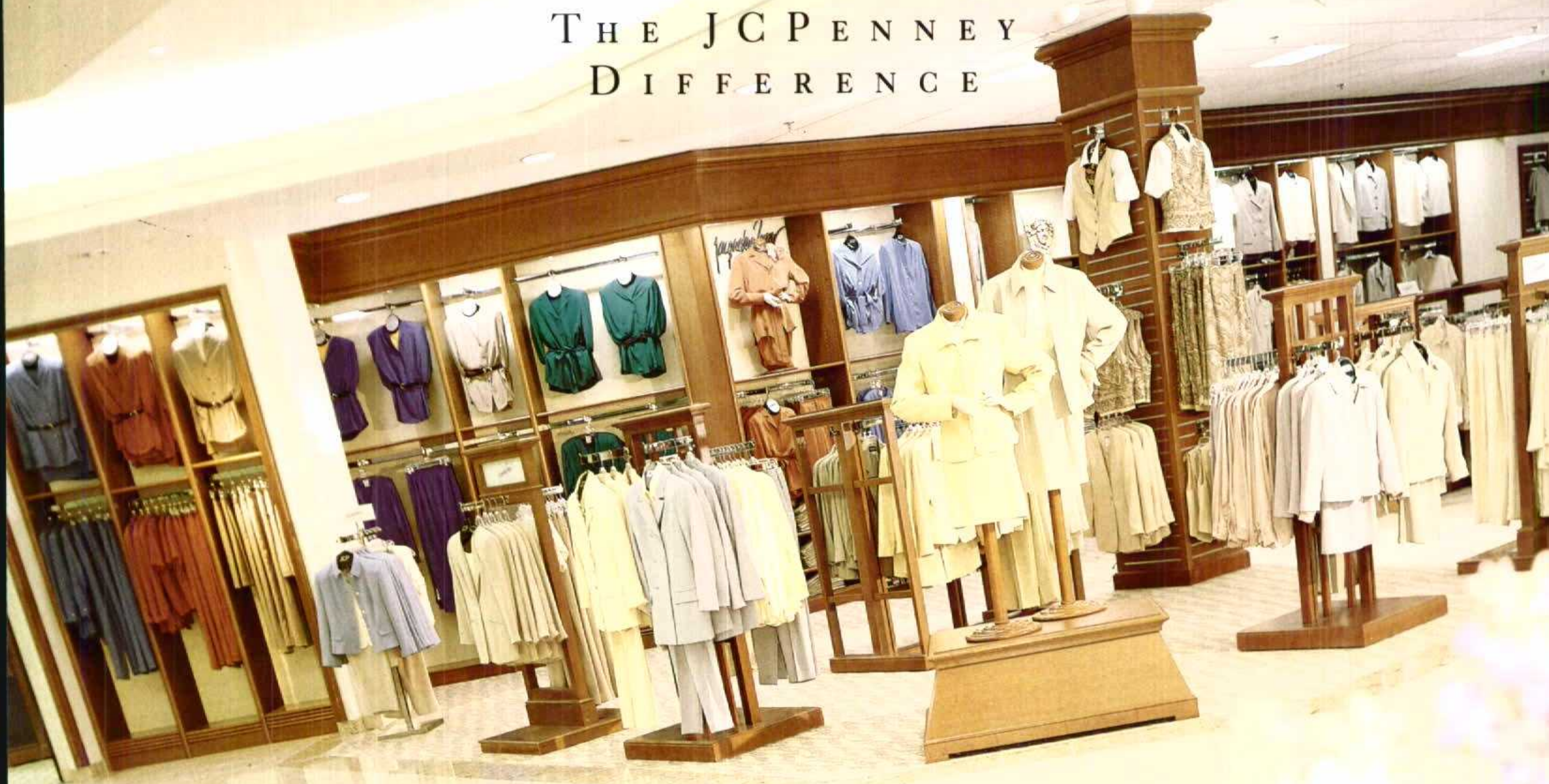
TRANSITION AT THE TOP

W. R. Howell retired as Chairman of the Board in January. His 38-year JCPenney career likely had its beginnings when he was a boy playing in the JCPenney store managed by his father in Claremore, Okla.

Mr. Howell's 13-year tenure as chairman leaves an indelible legacy of change and growth, encompassing the repositioning of JCPenney stores from mass retailer to department stores and the moving of the Home Office from New York to Texas. We gratefully acknowledge Mr. Howell's leadership and his dedication to preserving JCPenney's heritage and values in the midst of constant change.

Defining

THE JCPENNEY DIFFERENCE



JCPenney's enduring franchise with consumers is built on the solid reputation of its department stores and catalog.

JCPenney Stores and Catalog market family apparel and footwear, accessories, and home furnishings. We are committed to providing customers exceptional value in every aspect of the shopping experience: merchandise quality, fashion, selection, price, customer service, shopping ease, and store ambience.

We are determined to translate our sustained market leadership and successes with our customers into increased value for our stockholders.

JCPenney Stores. With 1,225 stores located in all 50 states and Puerto Rico, JCPenney is America's nationwide department store. JCPenney also has two stores in Mexico and one in Chile.

With quality merchandise and value pricing, we have achieved dominant market share in each of our major merchandise areas – women's apparel and accessories, menswear, children's apparel, and home lines. Among other lines, JCPenney is the leading retailer of blouses, dresses, skirts, dress shirts, sleepwear, underwear, lingerie, towels, luggage, and window coverings.

Driving Business With Private Brands. Over the past decade, our private-brand programs have propelled JCPenney's repositioning as a department store. Private brands, developed in close cooperation with key suppliers, give us the ability to respond quickly to fashion trends and deliver quality merchandise at very competitive prices.

Several of our private brands compete head-to-head with the best national brands. The Original Arizona Jean Company®, for example, was started from scratch in 1991 and today ranks as the No. 3 jeanswear brand in America. Likewise, our Worthington® private brand remains the No. 1 private brand of women's career sportswear, ranking third among all sportswear brands.

New or expanded lines introduced in 1996 produced some outstanding results. One of our brands, St. John's Bay®, successfully expanded its line for women's casual sportswear from catalog into department stores. Also in

We are committed to providing customers exceptional value in every aspect of the shopping experience: merchandise quality, fashion, selection, price, customer service, shopping ease, and store ambience.

Women's, the Jacqueline Ferrar® brand debuted a line of updated, high-quality career wear in many stores and in our new fashion catalogs. This brand produced strong double-digit sales growth for the year and is being expanded to 700 stores in 1997.

In Men's, the "business casual" movement continues to drive sales. Options by Stafford®, a new selection of coordinated sportcoats, slacks, and vests, was a strong performer after being introduced in the second half of 1996 and is now being expanded to include shirts, ties, and other items.

Our Home division is combining our various labels in towels, sheets, bedding coordinates, bath accessories, and window coverings into one powerhouse private brand – JCP Home Collection™ – which becomes the largest brand in the soft-home industry.

A Destination for National Brands. In addition to offering our customers a selection of fine private brands, JCPenney is the nation's leading retailer for many well-known national brands, such as Nike®, Levi's® and Levi's Dockers®, Warner's®, Vanity Fair®, Oshkosh B'Gosh®, and others.

Updated fashion offerings from our national-brand suppliers drove second-half sales in our Women's Apparel and Accessories divisions, and we expect that trend to continue in 1997. Joneswear, offered in a limited number of stores in 1996, will be rolled out to 350 stores in 1997. We have added Olga®, a key department-store brand in bras, and as a result we now carry all of the top-selling bras in America.

Besides apparel and home merchandise, JCPenney stores feature an array of services that generate sales and bring customers into our stores – from optical centers and photographic studios to the country's largest chain of department-store

styling salons. And we offer a nationwide on-line gift registry for wedding, baby, and other special-occasion gifts.

Positioned for Profitable Growth. Going forward, we see many opportunities for leveraging our stores' strengths to produce profitable sales growth and increase stockholder value.

We are progressing with our store modernization efforts, which help create a more consistent store look and a first-class department-store shopping environment featuring wider aisles and better lighting. Updating stores, as well as recapturing space previously used for non-selling activities, is allowing us to increase net selling space and, ultimately, sales per square foot. Experience has shown that once a modernization is complete, sales gains for those stores outperform those stores that have not been updated.

We also have an opportunity to capture new business by opening or repositioning stores in areas of rapid population growth and by acquiring locations to strengthen our presence in desirable markets.

To exploit our strength in private brands, we have created a Brand Development organization within the Company. This team will work to ensure fashion consistency within our private brands and develop new merchandise offerings that exploit the strong name recognition our brands already enjoy with customers.

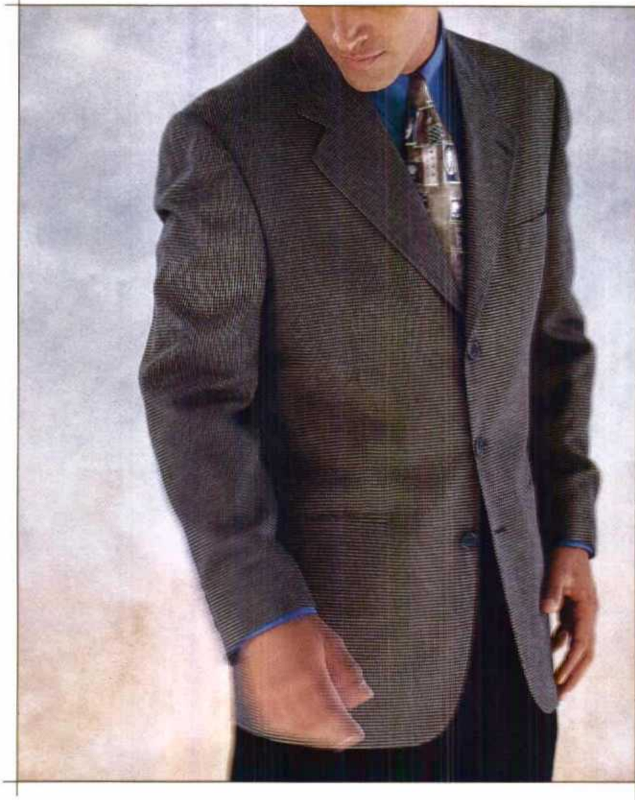
Sales in home lines have been boosted by the growth of JCPenney Home Stores – free-standing stores averaging about 40,000 square feet that offer expanded lines of furniture and soft-home furnishings. There were 17 JCPenney Home Stores at the end of 1996, and we currently plan to open about 25 more each year over the next three years.

Another key area of opportunity is target marketing. The Company recently completed an extensive database marketing study of the shopping patterns of 90 million U.S. households. We have just begun to mine this data to identify areas of opportunity in market segments that have the most potential for future sales.

JCPenney Catalog. Complementing the strengths of our department stores is the nation's largest catalog operation. Catalog desks are located in virtually all domestic JCPenney stores, in a number of our drugstores, and in stand-alone Catalog stores – a total of 1,902 locations.

Catalog handles customer orders through the country's largest privately owned telecommunications network and six Catalog Fulfillment Centers.

At JCPenney, we view Catalog as an area of growing opportunity, particularly given the aging population, the ever-increasing emphasis Americans place on



convenience, and the potential of electronic shopping.

During 1996, Catalog made several strategic moves to offset the recent surge in paper prices. Now that prices have stabilized, Catalog is poised to reap substantial benefits from these actions. Foremost is a more sophisticated marketing methodology that enables Catalog to target its mailings more effectively, putting our 400 million catalogs into the hands of customers who are most likely to purchase from them.

Stores and Catalog are working together to drive sales and satisfy customers. In 1996, store associates generated more than 600,000 catalog referral orders, providing more than 10 per cent of Catalog's sales volume. Catalog referrals allow JCPenney to achieve a better in-stock position than any other department store and keep our customers satisfied. Also, more than 60 per cent of the referral orders in 1996 were entered directly from a store point-of-sale terminal.

Achieving Growth With Expertise and Execution. Catalog is also pursuing opportunities in niche businesses that our stores are not in, including uniforms, bridal merchandise, and infants' furniture. Business-to-business catalog marketing, a natural extension of our profitable uniform business, will be another growth segment.

Extensive testing of the various electronic retailing formats positions Catalog to be ready when customers settle on the preferred platform. The current on-line shopping venture on our World Wide Web site (www.jcpenney.com), although still very small in sales volume, holds great potential as more customers turn to this form of shopping. And unlike many start-up Web operators, Catalog has the advantage of a strong fulfillment capability; we know we can meet our customers' expectations.

($ in millions)	1996	1995	1994
Stores and Catalog sales	$19,506	$18,711	$18,840
% inc/(dec)	4.2%	(0.7%)	7.2%
Comp store % inc/(dec)	3.4%	(1.4%)	6.8%
FIFO gross margin as a % of sales	30.1%	30.8%	31.9%
SG&A expenses as a % of sales	24.0%	24.4%	23.8%
Operating earnings	$ 1,183	$ 1,199	$ 1,508
as a % of sales	6.1%	6.4%	8.0%
Number of retail stores	1,228	1,238	1,233
Retail stores gross square footage *(millions)*	117.2	114.3	113.0
Number of Catalog units	1,902	1,899	1,895

CREATING OPPORTUNITY

Last year was a watershed in JCPenney's long and successful history in the drugstore business. With the acquisition of Eckerd Corporation, JCPenney moved into a leadership position in this rapidly consolidating industry. By acquiring Eckerd, we have created opportunities to better serve customers, leverage our merchandising strengths across our drugstores and other operations, and build on a larger platform for profitable growth to benefit our stockholders.

Drugstore sales in fiscal 1996 reached $3.1 billion. With the completion of the Eckerd acquisition in February, 1997 sales are expected to approach $10 billion. Comparable-store sales increased 7.7 per cent in 1996 from the prior year.

The drugstore business is one that JCPenney knows well. For 28 years, we have operated Thrift Drug with consistently profitable results. Before the Eckerd acquisition, Thrift had grown into the nation's eighth-largest drugstore chain with the recent purchases of Kerr Drug in 1995 and Fay's in 1996. We now operate the fourth-largest drugstore chain with 2,699 stores in 23 states, in addition to our separate institutional and mail-order pharmacy businesses.

With the Eckerd acquisition, our drugstore operation has the scale and buying power to sell more merchandise and reduce marginal costs, increasing the cost-effectiveness of each sale. In the current drugstore climate, sales volume and market strength have become critical for offsetting margin pressures – particularly in prescription drugs, where managed care and HMO plans are using their volume clout to demand lower prices.

Eckerd stores' locations in the Southeast and Sunbelt regions offered an excellent geographic complement to our Thrift presence in the Northeast and mid-Atlantic states. And like Thrift and our other recent acquisitions, Eckerd is the No. 1 or 2 drug retailer in all of the major markets it serves and has a widely recognized and respected name. By the fall of 1997, all of the Company's drugstores are expected to be under the Eckerd name.

Eckerd's customer base represented another excellent fit. Demographically, the Eckerd customer is also the JCPenney customer, and the combination of JCPenney, Thrift, and Eckerd gives us even stronger market presence. In addition, demographic changes – specifically the growth of the senior population – are

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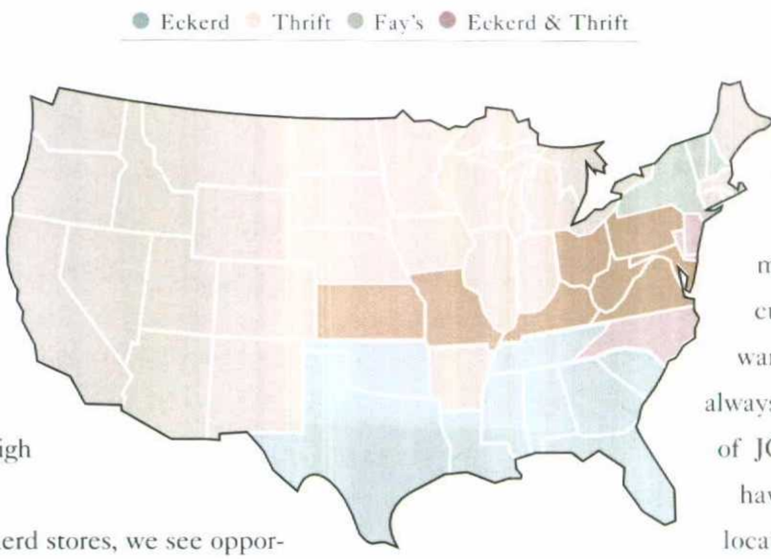

generating increased demand for prescription drugs. Eckerd's strong presence in the Sunbelt leaves us well positioned in a growing region with a high retiree population.

In our outlook for Eckerd stores, we see opportunities to grow Eckerd's business in non-drug lines – the "front-of-store" merchandise that represents 45 per cent of revenue and 55 per cent of operating profit. Particularly in such categories as home accessories, bath-and-body products, and certain apparel merchandise, we will be able to leverage our merchandising strengths and add value to both Eckerd's and JCPenney's businesses.

Once Eckerd's operations are fully integrated into our existing drugstore operations, we believe cost savings should be at least $100 million per year.

In each of the next three years, we plan to open 200 to 300 drugstores, half of which will be relocations of current stores. The drugstore expansion and the addition of Eckerd's substantial customer file bring new marketing opportunities. We now have more outlets to reach customers where they want to shop – which has always been a core philosophy of JCPenney. We currently have catalog order pickup locations in many Thrift Drug locations, and we are exploring this opportunity for our newly acquired drugstores. Marketing of JCPenney insurance products, including health-care discount services, may hold additional promise.

($ in millions)	1996	1995	1994
Drugstores sales	$3,147	$1,851	$1,540
% increase	70.0%	20.2%	9.0%
Comp store % inc	7.7%	5.5%	5.5%
FIFO gross margin as a % of sales	22.5%	23.3%	23.5%
SG&A expenses as a % of sales	18.2%	19.6%	20.0%
Operating earnings	$ 135	$ 68	$ 54
as a % of sales	4.3%	3.7%	3.5%
Number of drugstores	2,699	645	526
Drugstores gross square footage *(millions)*	26.4	6.2	4.5

STEADY AS IT GROWS

In 1996, the Insurance Group recorded its seventh consecutive year of record growth, as pre-tax operating earnings reached $186 million on revenues of $832 million. Over the past five years, pre-tax operating earnings have grown at an annual rate of approximately 20 per cent.

JCPenney Insurance Group operates several insurance companies – chief among which is J.C. Penney Life Insurance Company – marketing life, health, and credit insurance in the United States and Canada. It also offers discount plans for health services, such as vision, dental, and prescription drugs. The Insurance Group now has more than 10 million policies and certificates in force.

The JCPenney Insurance Group is the No. 1 mass marketer of group life and health insurance products in the United States. Unhindered by the traditional agency distribution system (and its associated costs), the direct marketing approach provides greater flexibility for adding new products and services. The Insurance Group's programs reach the more than two-thirds of consumers who are not served by a personal insurance agent. The Insurance Group has developed extensive target marketing expertise for recognizing the buying habits of customers and the modeling capabilities for predicting customer responses. The result is superior marketing efficiency that translates directly into increased sales and greater retention of customers. This expertise has been successfully adapted for use in strategic business relationships with other companies, an area that has generated significant growth since 1990. The Insurance Group now has business relationships with more than 30 credit-card-issuing banks (including seven of the top 10), other retailers, and seven major oil companies.

Significant cost advantages from being part of our organization include leveraging JCPenney's purchasing ability and sharing data processing, networking systems, and other resources. With experience, flexibility, and unwavering focus on customer service, the Insurance Group looks forward to new opportunities as we move ahead.

($ in millions)	1996	1995	1994
Insurance revenue	$ 832	$ 693	$ 564
% increase	20.1%	22.9%	22.3%
Operating earnings	$ 186	$ 157	$ 127
% increase	18.5%	23.6%	18.7%
Distribution of revenues:			
JCPenney customers	52.5%	61.2%	72.4%
Banks, oil companies, and other customers	47.5%	38.8%	27.6%
Policies in force	10.4	9.0	7.5
Life insurance in force	$9,990	$9,559	$8,780

[Financial Review]

JCPenney's financial strength has enabled the Company to continue to seek out opportunities to enhance stockholder value. In 1996 the Company used its financial strength to acquire two drugstore operations, Eckerd Corporation (Eckerd) and Fay's Incorporated (Fay's), which makes the Company a stronger and more effective competitor in the rapidly consolidating drugstore industry. In December 1996 JCPenney acquired for cash a 50.1 per cent stake in Eckerd, a drugstore chain with 1,748 stores operating primarily in the Sunbelt. The Eckerd acquisition was completed at the end of February 1997, when the Company exchanged approximately 23 million shares of its common stock for the remaining 49.9 per cent of Eckerd's outstanding common stock. The Company's investment, including Eckerd debt assumed by the Company, was $3.3 billion. Additionally, the Company purchased Fay's Incorporated, a chain of 272 drugstores operating principally in New York state markets not previously served by the Company. The Company's investment in Fay's was $353 million. These acquisitions were accounted for by the purchase method of accounting for business combinations, and accordingly, their results of operations are included as of their respective acquisition date.

The Company also continues to be a leader in the department store segment of the retail industry. In 1996, the Company opened seven Washington, D. C. stores acquired in late 1995 from Woodward and Lothrop. In addition, the Company committed $598 million in capital expenditures to build, modernize, and expand other JCPenney store locations. In 1996 the Company added approximately three million square feet of gross selling space.

Over the next three years capital expenditures of $1 billion per year are currently expected to be used to continue to build and modernize JCPenney stores, and to aggressively grow our drugstore operations.

The Company was disappointed with 1996 operating results, particularly in the first half of the year when retail sales in department stores and catalog were flat with the comparable period of the prior year. However, in the second half of the year retail sales rebounded, posting an increase of seven per cent. In support of second half sales, the Company stepped up its marketing programs and raised the level of its merchandise inventory. This combination led to increased markdowns and a decline in gross margin, especially in the fourth quarter of the year.

While gross margin suffered in 1996, the Company continued to manage and leverage its expense structure. Selling, general and administrative (SG&A) expenses declined as a per cent of sales by 70 basis points. SG&A expenses were well managed across all operating divisions and support functions. Over the last five years, the SG&A ratio has declined 250 basis points.

JCPenney's insurance operations posted another record year for the Company, marking the seventh consecutive year of increasing premiums and profits. Over the last five years, both revenue and pre-tax operating earnings have increased at an annual rate of approximately 20 per cent.

The remainder of Management's Discussion and Analysis will discuss in more detail the results of operations by business segment – Stores and Catalog, Drugstores and Insurance.

The Company is committed to maintaining a leadership position in the businesses it operates, improving its operating performance, and maintaining its financial strength.

Results of Operations

($ in millions)	1996	1995	1994
Earnings before business acquisition and consolidation expenses, net of tax	$793	$838	$1,057
Net income	565	838	1,057

Earnings before business acquisition and consolidation expenses declined to $793 million compared with $838 million in 1995 and $1,057 million in 1994. Business acquisition and consolidation expenses recorded in 1996 totaled $354 million pre-tax and reduced net income by $228 million. These expenses were principally related to the integration of drugstore acquisitions, costs associated with closing drugstores and certain support functions, and the write-down of assets. See footnote 18 for more details. Net income in 1996 was $565 million. While sales rebounded in the second half of 1996, results were negatively impacted by softness in gross margins in the Company's retail segments, resulting primarily from aggressive marketing programs. In addition, the Company experienced higher costs associated with net interest and credit operations as a result of higher Company

debt levels and high levels of bad debt losses. Income in 1995 declined from 1994 levels and was negatively impacted by softness in consumer demand and the continuing consolidation within the retail industry.

SALES

($ in millions)	1996	1995	1994
Stores and Catalog	$19,506	$18,711	$18,840
% inc/(dec)	4.2%	(0.7%)	7.2%
Comp store % inc/(dec)	3.4%	(1.4%)	6.8%
Drugstores	$ 3,147	$ 1,851	$ 1,540
% increase	70.0%	20.2%	9.0%
Comp store % inc	7.7%	5.5%	5.5%

Sales in JCPenney stores were soft in the first half of 1996 and accelerated in the second half. The Company's strategy was to regain market share lost in 1995 and the first half of 1996. The sales increase in 1996 was primarily driven by a more fashionable mix of merchandise, particularly Men's and Women's, and aggressive marketing programs. For 1996 the strongest sales gains were reported in Children's and Men's, followed by Home and Women's. Men's and Women's had strong recoveries during the second half of 1996. The best merchandise sales were experienced in athletic apparel, children's apparel and shoes, furniture, and cosmetics. The Company's ten largest geographic markets led the sales performance, partly as a result of new stores in Washington, D. C. and Dallas which helped to generate sales increases. The West, South and Northeast regions followed in sales gains. In Catalog, sales were generally weak through November. In December and January sales accelerated and Catalog recorded a small sales gain for the year. Catalog's strengths were principally in the specialty media, led by apparel. Soft sales were recorded by Catalog in the hard line areas, particularly in electronics and toys. Sales in 1995 were weak after a very strong sales performance in both Stores and Catalog in 1994 reflecting continuing pressure in the retail sector of the economy.

Drugstore sales for 1996 showed strong growth, consistent with the overall results in the drugstore industry. In 1996, total drugstore sales reflect the addition of the Fay's and Eckerd drugstores in October and December 1996, respectively, and in 1995, reflect the February acquisition of the Kerr drugstores.

FIFO GROSS MARGIN

	1996	1995	1994
Stores and Catalog	30.1%	30.8%	31.9%
Drugstores	22.5%	23.3%	23.5%

Gross margin dollars for Stores and Catalog increased to $5,872 million in 1996 compared with $5,758 million in 1995, an increase of 2.0 per cent. As a per cent of sales, margins declined 70 basis points primarily as a result of strong marketing programs designed to boost sales volume and reduce higher levels of inventory. Gross margin dollars in 1995 declined from $6,001 in 1994, a decrease of 4.0 per cent. During 1995, margin ratios in Stores and Catalog also declined primarily as a result of promotional markdowns.

Drugstore gross margin dollars increased to $708 million in 1996 compared with $431 million in 1995. The majority of the increase was related to the acquisition of Fay's and Eckerd. Gross margin dollars in 1995 increased from $362 million in 1994, with both sales and margins increasing about 20 per cent. Gross margin as a per cent of sales declined in 1996 and 1995. The decline was a result of increases in managed care prescription drug sales which generally have lower margins than non-managed care sales.

SELLING, GENERAL, AND ADMINISTRATIVE (SG&A) EXPENSES

	1996	1995	1994
Stores and Catalog	24.0%	24.4%	23.8%
Drugstores	18.2%	19.6%	20.0%

SG&A for Stores and Catalog were well managed in 1996, and as a per cent of sales declined by 40 basis points. SG&A expenses totaled $4,689 million in 1996 compared with $4,560 million in 1995 and $4,492 million in 1994. Expenses in both 1996 and 1995 increased modestly despite higher paper and postage costs in both 1995 and most of 1996. As a

per cent of sales, SG&A expenses increased by 60 basis points in 1995 compared with 1994, primarily as a result of declines in sales.

Drugstores SG&A expenses totaled $573 million in 1996 compared to $364 million in 1995 and $308 million in 1994. The increases in both years were primarily related to drugstore acquisitions which occurred in those years. As a per cent of sales, SG&A expenses were well leveraged, decreasing by 140 basis points in 1996 and 40 basis points in 1995. Drugstores have achieved improvement in SG&A ratios through increased store productivity and management of expense levels. The Company expects further improvement in the SG&A ratio in future periods as the recently acquired drugstores are fully integrated into the drugstore operation. The Company expects those savings to come from areas such as reduction of duplicate facilities and consolidation of support activities.

Net Interest and Credit Operations

($ in millions)	1996	1995	1994
Finance charge revenue	$(641)	$(631)	$(624)
Credit costs	560	489	447
Interest expense, net	359	325	270
Net interest and credit costs	$ 278	$ 183	$ 93

Net interest and credit costs have increased over the past three years principally as a result of higher bad debt write-offs and interest expense. Finance charge revenue has remained relatively constant. Net bad debt losses and increases in provisions established for future losses totaled $267 million in 1996 compared with $219 million in 1995, and $177 million in 1994. The increase in both years is primarily related to continued high levels of delinquencies and consumer bankruptcies. Increases in 1996 interest expense are generally related to higher debt levels required to finance increases in working capital, the drugstore acquisitions, and capital spending. Increases in 1995 interest expense were primarily related to capital spending and debt associated with the Company's stock purchase program.

JCPenney Insurance Group

	1996	1995	1994
Revenue increase	20.1%	22.9%	22.3%
Profit increase	18.5%	23.6%	18.7%

JCPenney's Insurance group continues to contribute strong growth in revenue and operating profits. In 1996, revenues grew to $832 million compared with $693 million in 1995 and $564 million in 1994. The growth is primarily attributable to continued success in developing marketing relationships with third party businesses throughout North America, principally banks, oil companies, and retailers. Pre-tax operating profits increased to $186 million in 1996 compared with $157 million in 1995 and $127 million in 1994. The increase in operating profits has been driven by the strong growth in revenues.

Income taxes. The effective income tax rate was 37.9 per cent in 1996 compared with 37.5 per cent in 1995 and 37.8 per cent in 1994. Tax rates will be increasing to about 39 per cent beginning in 1997. The increase is a result of the amortization of goodwill associated with the drugstore acquisitions which provides no tax benefit.

Financial Condition

Financial measures *($ in millions except per share data)*	1996	1995	1994
Cash flow from operations	$ 382	$ 1,403	$ 738
Capital expenditures (cash)	704	717	550
Debt to capital	60.1%*	52.6%	53.1%
Dividends per share	2.08	1.92	1.68

**Assumes the completion of the Eckerd transaction.*

The Company's goal is to maintain a strong balance sheet to provide financial flexibility and to increase stockholder value. On February 20, 1997, the Company completed a public offering of $500 million of 100-year, 7 5/8 per cent Debentures due March 1, 2097. The Debentures were priced at par. The sale of these Debentures was the first step in the Company's plan to convert short term acquisition debt to longer term maturities.

Financial flexibility has permitted the Company to capitalize on attractive opportunities for growth, as demonstrated by the recent acquisition of Eckerd, to modernize and update JCPenney retail stores, and to open 20 new large department stores in 1996 in premier shopping centers across the country.

The Board of Directors increased the dividend on the Company's common stock to an indicated annual rate of $2.14 from $2.08 per share in March 1997. Including this increase, the dividend on common stock has risen in excess of 60 per cent over the last five years. Dividends on common shares were paid at a quarterly rate of 52 cents per share in 1996, 48 cents per share in 1995, and 42 cents per share in 1994.

Merchandise inventory in 1996 increased to $5,722 million compared with $3,935 million in 1995 and $3,876 million in 1994 due primarily to the drugstore acquisitions. In addition, inventory for Department Stores and Catalog increased by approximately 15 per cent in 1996. This increase is principally due to the addition of three million square feet of gross selling space, low inventory levels entering the year, and an acceleration of a marketing program earlier in 1997. Inventory position, however, was above the Company's plan in Department Stores and Catalog at the end of 1996.

Intangible assets consist principally of intangible assets acquired in the 1996 drugstore acquisitions, comprised of favorable lease rights, prescription files, software, and trade name, as well as goodwill representing the excess of purchase price over the fair value of assets acquired.

Debt to capital. The Company's strong balance sheet enabled the strategic acquisition of Eckerd. As a result of the first step of the acquisition, the debt to capital ratio, including both on and off-balance-sheet debt, increased to 64.5 per cent at year end 1996 compared with 52.6 per cent in 1995 and 53.1 per cent in 1994. Upon completion of the acquisition in February 1997, the debt to capital ratio decreased to 60.1 per cent as a result of the issuance of 23.2 million shares of common stock. In addition to its drugstore acquisitions, the Company purchased 7.5 million shares of its common stock in 1996 for $366 million. Over the past three years, the Company has purchased 25 million shares of its common stock at an aggregate purchase price of $1,176 million.

Total debt, both on and off-balance-sheet, was $10,807 million at January 25, 1997 compared with $6,542 million at January 27, 1996, and $6,366 million at January 28, 1995. The increase in 1996 included $1,235 million related to the acquisition of 50.1 per cent of the outstanding common stock of Eckerd, the assumption of $760 million of Eckerd debt, $366 million related to the purchase of 7.5 million shares of JCPenney common stock, the assumption of $700 million of Eckerd operating lease obligations, and approximately $500 million related to working capital requirements. During 1996, the Company issued $600 million of long term debt with an average coupon rate of approximately 7.3 per cent.

The Company's long term debt is rated A by Standard and Poor's Corporation, A2 by Moody's Investors Service, and A by Fitch Investors Service, Inc., which continue to be among the highest in the retail industry. The Company's commercial paper is rated A1, P1, and F1 by the three organizations, respectively. Short term debt ratings were left unchanged by each of the rating agencies.

Cash flow. The Company expects to generate sufficient cash flow internally to meet substantially all of its cash requirements for working capital, capital expenditures, and dividends in the future.

Inflation and changing prices have not had a significant impact on the Company in recent years due to low levels of inflation.

[Independent Auditors' Report]

To the Stockholders and Board of Directors
of J.C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J.C. Penney Company, Inc. and Subsidiaries as of January 25, 1997, January 27, 1996, and January 28, 1995, and the related consolidated statements of income, reinvested earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.C. Penney Company, Inc. and Subsidiaries as of January 25, 1997, January 27, 1996, and January 28, 1995, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

The Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* in 1994, and Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* in 1995.

KPMG Peat Marwick LLP

KPMG Peat Marwick LLP
Dallas, Texas
February 27, 1997

[Company Statement on Financial Information]

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment as to the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears to the left. This audit was conducted in accordance with generally accepted auditing standards, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

Donald A. McKay
Senior Vice President and Chief Financial Officer

[Consolidated Statements of Income]

J.C. Penney Company, Inc. and Subsidiaries

For the Year *($ in millions except per share data)*	1996	1995	1994
Revenue			
Retail sales	$22,653	$20,562	$ 20,380
Revenue of insurance and bank	996	857	702
Total revenue	23,649	21,419	21,082
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	16,043	14,333	13,970
Selling, general, and administrative expenses	5,239	4,895	4,783
Costs and expenses of insurance and bank	803	667	537
Net interest expense and credit operations	278	183	93
Minority interest and amortization of intangibles	23	—	—
Business acquisition and consolidation expenses	354	—	—
Total costs and expenses	22,740	20,078	19,383
Income before income taxes	909	1,341	1,699
Income taxes	344	503	642
Net income	$ 565	$ 838	$ 1,057
Earnings per common share			
Primary	$ 2.29	$ 3.48	$ 4.29
Fully diluted	$ 2.25	$ 3.33	$ 4.05

See Notes to Consolidated Financial Statements on pages 22 through 34.

[Consolidated Statements of Reinvested Earnings]

($ in millions)	1996	1995	1994
Reinvested earnings at beginning of year	$ 4,397	$ 4,262	$ 4,093
Net income	565	838	1,057
Net unrealized change in debt and equity securities and currency translation adjustments	(21)	72	(21)
Retirement of common stock	(320)	(301)	(435)
Common stock dividends declared	(471)	(434)	(392)
Preferred stock dividends declared, net of taxes	(40)	(40)	(40)
Reinvested earnings at end of year	$ 4,110	$ 4,397	$ 4,262

See Notes to Consolidated Financial Statements on pages 22 through 34.

J.C. Penney Company, Inc. and Subsidiaries

ASSETS *($ in millions)*	1996	1995	1994
Current assets			
Cash (including short term investments of $131, $173, and $207)	$ 131	$ 173	$ 261
Receivables, net	5,757	5,207	5,159
Merchandise inventory (LIFO reserves of $265, $226, and $247)	5,722	3,935	3,876
Prepaid expenses	102	94	73
Total current assets	11,712	9,409	9,369
Properties, net	5,014	4,281	3,954
Investments, primarily insurance operations	1,605	1,651	1,359
Deferred insurance policy acquisition costs	666	582	482
Goodwill and other intangible assets	1,861	—	—
Other assets	1,230	1,179	1,038
	$22,088	$17,102	$16,202

LIABILITIES AND STOCKHOLDERS' EQUITY *($ in millions)*	1996	1995	1994
Current liabilities			
Accounts payable and accrued expenses	$ 3,738	$ 2,404	$ 2,274
Short term debt	3,950	1,509	2,092
Current maturities of long term debt	250	—	—
Deferred taxes	28	107	115
Total current liabilities	7,966	4,020	4,481
Long term debt	4,565	4,080	3,335
Deferred taxes	1,362	1,188	1,039
Insurance policy and claims reserves	781	691	568
Other liabilities (including bank deposits of $724, $767, and $702)	1,383	1,239	1,164
Minority interest in Eckerd	79	—	—
Stockholders' equity			
Preferred stock, without par value: Authorized, 25 million shares — issued, 1 million shares of Series B LESOP convertible preferred	568	603	630
Guaranteed LESOP obligation	(142)	(228)	(307)
Common stock, par value 50¢: Authorized, 1,250 million shares — issued, 224, 224, and 227 million shares	1,416	1,112	1,030
Reinvested earnings	4,110	4,397	4,262
Total stockholders' equity	5,952	5,884	5,615
	$22,088	$17,102	$16,202

See Notes to Consolidated Financial Statements on pages 22 through 34.

J.C. Penney Company, Inc. and Subsidiaries

FOR THE YEAR ($ in millions)	1996	1995	1994
Operating activities			
Net income	$ 565	$ 838	$1,057
Business acquisition and consolidation expenses	310	—	—
Depreciation and amortization, including intangibles	381	341	323
Deferred taxes	(18)	144	29
Change in cash from:			
Customer receivables	(297)	73	(326)
Inventory, net of trade payables	(521)	(55)	(352)
Other assets and liabilities, net	(38)	62	7
	382	1,403	738
Investing activities			
Capital expenditures	(704)	(717)	(550)
Eckerd acquisition	(1,776)	—	—
Purchases of investment securities	(471)	(583)	(476)
Proceeds from sales of investment securities	493	420	287
	(2,458)	(880)	(739)
Financing activities			
Change in short term debt	2,401	(583)	808
Issuance of long term debt	596	991	500
Payments of long term debt	(133)	(244)	(350)
Common stock issued, net	68	50	45
Common stock purchased and retired	(366)	(335)	(475)
Preferred stock retired	(35)	(27)	(18)
Dividends paid, preferred and common	(497)	(463)	(421)
	2,034	(611)	89
Net increase/(decrease) in cash and short term investments	(42)	(88)	88
Cash and short term investments at beginning of year	173	261	173
Cash and short term investments at end of year	$ 131	$ 173	$ 261
Supplemental cash flow information			
Interest paid	$ 390	$ 355	$ 301
Interest received	60	54	55
Income taxes paid	356	409	509

Non-Cash Transactions. In October 1996, the Company acquired all of the assets and liabilities of Fay's Incorporated in a transaction valued at approximately $353 million. The transaction was accomplished through an exchange of common stock valued at approximately $278 million and the assumption of approximately $75 million of Fay's Incorporated debt.

In February 1995, the Company acquired all of the assets and liabilities of Kerr Drug Stores, Inc. The transaction was accomplished through an exchange of common stock valued at approximately $74 million.

Pro forma effects of these acquisitions would not differ significantly from historical results.

See Notes to Consolidated Financial Statements on pages 22 through 34.

1 Nature of Operations

The Company operates: Retail Department Stores and Catalog (Stores and Catalog), Drugstores, and Insurance.

Stores and Catalog is comprised of retail stores located in all 50 states, Puerto Rico, two stores in Mexico, and one store in Chile, as well as six catalog fulfillment centers which together provide the consumer multiple shopping formats. The major portion of the Company's business is conducted domestically, and consists of providing merchandise and services to consumers through department stores that include catalog departments. The Company's merchandise offerings consist predominantly of family apparel, jewelry, shoes, accessories, and home furnishings.

Drugstores include the Company's former Thrift drugstore operations, and all of the Eckerd, Fay's, and Kerr drugstores acquired in 1996 and 1995. The drugstore segment operates 2,699 store locations primarily in the Northeast, Southeast, and Sunbelt regions of the United States which sell pharmaceuticals and related products as well as general merchandise.

The Insurance segment consists of several insurance companies, the principal of which is J.C. Penney Life Insurance Company (collectively, JCPenney Insurance). JCPenney Insurance markets life, health, accident, and credit policies through direct response solicitations throughout the United States and Canada to JCPenney customers and customers of third party credit card issuers.

2 Summary of Accounting Policies

Basis of presentation. Certain prior year amounts may have been reclassified to conform with the current year presentation.

Basis of consolidation. The consolidated financial statements present the results of J. C. Penney Company, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Definition of fiscal year. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1996 ended January 25, 1997, 1995 ended January 27, 1996, and 1994 ended January 28, 1995. The accounts of JCPenney Insurance are on a calendar year basis.

Retail sales. Retail sales include merchandise and services, net of returns, and exclude all taxes.

Earnings per common share. Primary earnings per share are computed by dividing net income less dividend requirements on the Series B LESOP convertible preferred stock, net of tax, by the weighted average common stock and common stock equivalents outstanding. Fully diluted earnings per share also assume conversion of the Series B LESOP convertible preferred stock into the Company's common stock. Additionally, it assumes adjustment of net income for the additional cash requirements, net of tax, needed to fund the LESOP debt service resulting from the assumed replacement of the preferred dividends with common stock dividends.

Cash and short term investments. Cash invested in instruments with remaining maturities of three months or less from time of investment is reflected as short term investments.

Merchandise inventory. Substantially all merchandise inventory is valued at the lower of cost (last-in, first-out) or

market, determined by the retail method. The Company applies internally developed indices to measure increases and decreases in its own retail prices.

Depreciation and amortization. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates of depreciation are two to 10 per cent for buildings and building improvements, five per cent for warehouse fixtures and equipment, 10 per cent for selling fixtures and equipment, and 20 to 33 per cent for computer equipment. Improvements to leased premises are amortized on a straight line basis over the expected term of the lease or their estimated useful lives, whichever is shorter. Intangible assets, other than trade name, are being amortized over periods ranging from five to seven years. Trade name and goodwill are amortized over 40 years.

Deferred charges. Expenses associated with the opening of new stores are written off in the year of the store opening, except those of stores opened in January, which are written off in the following fiscal year. Deferred policy acquisition costs, principally marketing costs and commissions incurred by JCPenney Insurance to secure new insurance policies, are amortized over the expected premium-paying period of the related policies.

Investments. The Company's investments are classified as available-for-sale and are carried at fair value. Changes in unrealized gains and losses are recorded directly to stockholders' equity, net of applicable income taxes. Realized gains and losses are determined on a first-in, first-out basis.

Insurance policy and claims reserves. Liabilities established by JCPenney Insurance for future policy benefits are computed using a net level premium method including assumptions as to investment yields, mortality, morbidity, and persistency based on the Company's experience. Liabilities for unpaid claims are charged to expense in the period that the claims are incurred.

Advertising. Costs for newspaper, television, radio, and other media advertising are expensed as incurred. Catalog book preparation and printing costs, which are considered direct response advertising, are charged to expense over the life of the catalog, not to exceed six months.

Derivative financial instruments. The Company's current derivative positions consist of non-leveraged off-balance-sheet interest rate swaps which are accounted for by recording the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized.

Stock-based compensation. The Company elected to continue accounting for stock options under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees.*

Use of estimates. The Company's consolidated financial statements have been prepared in conformity with generally accepted accounting principles. Certain amounts included in the consolidated financial statements are estimated based on currently available information and management's judgment as to the outcome of future conditions and circumstances. While every effort is made to ensure the integrity of such estimates, including the use of third party specialists where appropriate, actual results could differ from these estimates.

New accounting rule. The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* in June 1996. This standard was effective for transactions occurring after December 31, 1996, and did not have a material impact on the Company.

3 Business Acquisitions

In November 1996 the Company entered into a definitive agreement to acquire Eckerd Corporation (Eckerd), a 1,748 store drugstore chain with stores located in 13 states primarily in the Southeast and Sunbelt, in a two-step cash and stock transaction. The aggregate transaction value, including the assumption of $760 million of Eckerd debt, was $3.3 billion. The transaction was effected through a two-step process consisting of: i) a cash tender offer, which was completed in December 1996, at $35.00 per share for 35.3 million shares of Eckerd common stock, or 50.1 per cent of the total number of outstanding shares, for a total consideration of $1,235 million, and ii) the exchange of 23.2 million shares of JCPenney common stock for the remaining 35.1 million shares of Eckerd common stock at a conversion rate of 0.6604 of a share of JCPenney common stock for each Eckerd share of common stock, for a consideration valued at $1,311 million, including the cash out of certain outstanding Eckerd employee

stock options, in a transaction which was completed in February 1997. The purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair value, and accordingly, the Company recognized intangible assets consisting of favorable lease rights, prescription files, computer software, and trade name. The excess of the purchase price over the estimated fair value of assets acquired and liabilities assumed is classified as goodwill and totaled $2.3 billion at the conclusion of the acquisition, of which $1.2 billion is reflected in the consolidated balance sheet.

In October 1996 the Company completed the acquisition of Fay's Incorporated (Fay's), a drugstore chain with 272 stores located primarily in New York state. The transaction was effected through the issuance of 5.2 million shares of common stock valued at $278 million, and assumption of $75 million of Fay's debt. The excess of the purchase price over the estimated fair value of assets acquired and liabilities assumed totaled $220 million, and is classified as goodwill.

Both the Eckerd and Fay's acquisitions are being accounted for under the purchase method of accounting for business combinations, and accordingly, the results of operations of both Eckerd and Fay's are included in the Company's results of operations since the respective dates of acquisition.

The following unaudited pro forma condensed statements of operations give effect to the Eckerd and Fay's acquisitions as if the transactions occurred at the beginning of each of the periods presented.

	52 Weeks Ended			
	Jan. 25, 1997		Jan. 27, 1996	
($ in millions except per share data)	Reported	Pro forma	Reported	Pro forma
Retail sales	$22,653	$28,028	$20,562	$26,442
Earnings before extraordinary items	565	519	838	766
Earnings per share before extraordinary items:				
Primary	2.29	1.92	3.48	2.88
Fully diluted	2.25	1.91	3.33	2.78

Pro forma earnings do not reflect cost savings which the Company believes should be at least $100 million per year once drugstore operations are fully integrated.

See footnote 18 for a discussion of business acquisition and consolidation expenses related to these acquisitions.

4 RECEIVABLES

($ in millions)	1996	1995	1994
Customer receivables serviced	$ 5,006	$ 4,688	$ 4,751
Customer receivables sold	(725)	(725)	(725)
Customer receivables owned	4,281	3,963	4,026
Less allowance for doubtful accounts	(105)	(84)	(74)
Customer receivables, net	4,176	3,879	3,952
Consumer banking receivables	735	776	729
Other receivables	846	552	478
Receivables, net	$ 5,757	$ 5,207	$ 5,159

The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses.

During the period 1988 to 1990, the Company transferred portions of its customer receivables to a trust which, in turn, sold certificates representing undivided interests in the trust in public offerings. Certificates sold during this period totaled $1,400 million. As of January 25, 1997, $725 million of the certificates were outstanding and the balance of the receivables in the trust was $1,869 million. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust.

Cash flows generated from receivables in the trust are dedicated to payment of interest on the outstanding certificates with stated rates of 8.95 per cent and 9.625 per cent, absorption of defaulted accounts in the trust, and payment of servicing fees to the Company. Reserve funds (fully funded at $91 million) are available if cash flows from the receivables become insufficient to make such payments. None of the reserve funds has been utilized as of January 25, 1997. Additionally, the Company has made available to the trust irrevocable letters of credit of $87 million that may be drawn upon should the reserve funds be exhausted. None of the letters of credit was in use as of January 25, 1997.

5 PROPERTIES

($ in millions)	1996	1995	1994
Land	$ 265	$ 216	$ 213
Buildings			
Owned	2,666	2,410	2,178
Capital leases	159	182	186
Fixtures and equipment	3,710	2,978	2,763
Leasehold improvements	915	622	611
	7,715	6,408	5,951
Less accumulated depreciation and amortization	2,701	2,127	1,997
Properties, net	$ 5,014	$ 4,281	$3,954

1996 includes $431 million, net, related to the 1996 acquisitions.

At January 25, 1997, the Company owned 301 retail stores and other units, four catalog distribution centers, one store merchandise distribution center, its home office facility, and the JCPenney Insurance corporate offices.

6 CAPITAL EXPENDITURES

Capital expenditures, primarily for new and relocated JCPenney stores and for modernizations and updates of existing stores, were as follows:

($ in millions)	1996	1995	1994
JCPenney stores:			
New and relocated stores*	$296	$399	$197
Modernizations and updates	219	134	136
Technology and other store improvements	83	54	78
	598	587	411
Catalog	38	28	21
Drugstores	103	53	59
Other	51	81	53
Total capital expenditures	$790	$749	$544

** 1995 total includes $173 million for the purchase of seven Woodward and Lothrop stores in the Washington, D.C., area.*

7 FINANCIAL INSTRUMENTS AND FAIR VALUE

Financial Assets. The Company's financial assets are recorded at fair value based on quoted market prices, and consist principally of fixed income and equity securities, the majority of which are held by JCPenney Insurance, and which had a fair value of $1,138 million, $995 million, and $758 million at the end of 1996, 1995, and 1994, respectively, and asset-backed certificates. Unrealized gains and losses are included in stockholders' equity, net of tax, and consisted of net unrealized gains of $52 million on investments having a fair value of $1,605 million and an amortized cost of $1,523 million at January 25, 1997, net unrealized gains of $70 million on investments having a fair value of $1,651 million and an amortized cost of $1,540 million at January 27, 1996, and net unrealized losses of $12 million on investments having a fair value of $1,359 million and an amortized cost of $1,378 at January 28, 1995.

The scheduled maturities for fixed income securities at year end 1996 were as follows:

($ in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 12	$ 12
Due after one year through five years	632	673
Due after five years through 10 years	240	243
Due after 10 years	162	174
	1,046	1,102
Mortgage-backed securities	359	356
Equity securities	95	124
Other	23	23
Total	$1,523	$1,605

Financial Liabilities are recorded in the consolidated balance sheets at historical cost which approximate fair value. These values are not necessarily indicative of actual market transactions.

The fair value of long term debt, excluding capital leases, is based on the interest rate environment and the Company's credit rating.

Derivative Financial Instruments. The Company selectively uses non-leveraged, off-balance-sheet derivative instruments to manage its market and interest rate risk, and does not hold derivatives for trading purposes. Current derivative positions consist of two offsetting interest rate swaps, each with a notional principal amount of $375 million which were entered into in connection with the sale of asset-backed certificates in 1990. The impact of these interest rate swaps on both interest expense and the Company's average long term borrowing rates for 1996, 1995, and 1994 was not material. These swaps help to protect certificate holders by reducing the possibility of an early amortization of the principal. The counterparty to these contracts is a high credit quality commercial bank. Consequently, credit risk, which is inherent in all swaps, has been minimized to a large extent.

Concentrations of Credit Risk. The Company has no significant concentrations of credit risk. Individual accounts comprising accounts receivable are widely dispersed and investments are well diversified.

8 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

($ in millions)	1996	1995	1994
Trade payables	**$1,558**	$ 979	$ 1,014
Accrued salaries, vacations, profit-sharing, and bonuses	**419**	309	336
Taxes, including income taxes	**376**	362	358
Workers' compensation and public liability insurance	**208**	132	123
Common dividend payable	**121**	107	96
Other	**1,056**	515	347
Total	**$3,738**	$2,404	$ 2,274

1996 total includes $835 million related to the 1996 acquisitions.

9 SHORT TERM DEBT

($ in millions)	1996	1995	1994
Commercial paper	**$ 2,050**	$ 1,482	$ 2,074
Bank debt	**1,900**	—	—
Other	**—**	27	18
Total	**$ 3,950**	$ 1,509	$ 2,092
Average interest rate at year end	**5.5%**	5.7%	5.9%

Committed bank credit facilities available to the Company as of January 25, 1997, amounted to $6.0 billion. In 1996, the Company amended its two existing syndicated revolving credit facilities and entered into two new syndicated revolving credit facilities totaling $6.0 billion with a group of domestic and international banks. The "Existing" facilities support the Company's short term borrowing program, and are comprised of a $1.5 billion 364-day revolver, and a $1.5 billion, five-year revolver. The 364-day revolver includes a $750 million seasonal credit line for the August to January period, thus allowing the Company to match its seasonal borrowing requirements. The "Acquisition" facilities provided short term funding for the Company's acquisition of Eckerd and are also comprised of a $1.5 billion, 364-day revolver, and a $1.5 billion, five-year revolver. As of January 25, 1997, $1.5 billion was borrowed under the five-year "Acquisition" facility and $400 million was borrowed under the 364-day "Acquisition" facility. Subsequent to year end, the Company initiated a new commercial paper program to refinance the total amounts outstanding under the bank lines at a lower cost.

Also, the Company had $945 million of uncommitted credit lines in the form of letters of credit with seven banks to support its direct import merchandise program. At January 25, 1997, $282 million of letters of credit issued by the Company were outstanding.

10 Long Term Debt

($ in millions)	1996	1995	1994
Original issue discount			
6% debentures, due 2006, $200 at maturity, effective rate 13.2%	$ 112	$ 108	$ 104
Debentures and notes			
5.375% to 7.650%, due 1998 to 2026	3,100	2,500	1,500
8.25%, due 2002	250	250	250
9% to 10%, due 1997 to 2021*	1,045	835	1,000
Guaranteed LESOP notes, 8.17%, due 1998**	142	228	307
Present value of commitments under capital leases	127	91	104
Other	39	68	70
Long term debt	$ 4,815	$ 4,080	$3,335
Average long term debt outstanding	$ 4,053	$ 3,241	$2,754
Average interest rates	7.7%	7.9%	8.2%

1996 includes $278 million related to the 1996 acquisitions.
**Includes current maturities of $250 million.*
***For further discussion, see footnote 17.*

Changes in long term debt *($ in millions)*	1996	1995	1994
Increases			
5.375% to 7.650% notes, due 1998 to 2026	$ 600	$ 1,000	$ 500
Amortization of original issue discount	4	4	3
Eckerd debt outstanding at end of year	278	—	—
	882	1,004	503
Decreases			
9.375% notes due 1998, retired in 1995	—	165	—
Transfers to current maturities	250	—	—
Other, including LESOP amortization	147	94	97
	397	259	97
Net increase in long term debt	$ 485	$ 745	$ 406

Maturities of long term debt

($ in millions)	Long Term Debt	Capital Leases
1997	$ 252	$ 17
1998	403	29
1999	228	13
2000	303	12
2001	252	13
2002 to 2006	1,711	12
Thereafter	1,485	46
Total	$4,634	$142
Less future interest and executory expenses		15
Present value		$127

11 Preferred Stock

In 1988, a leveraged employee stock ownership plan (LESOP) was adopted (see footnote 17). The LESOP purchased approximately 1.2 million shares of a new issue of Series B convertible preferred stock from the Company. These shares are convertible into shares of the Company's common stock at a conversion rate equivalent to 20 shares of common stock for each share of preferred stock. The conversion price is $30 per common share. The convertible preferred stock may be redeemed at the option of the Company or the LESOP, under certain limited circumstances. The redemption price may be satisfied in cash or

common stock or a combination of both at the Company's sole discretion. The dividends are cumulative, are payable semi-annually on January 1 and July 1, and yield 7.9 per cent. The convertible preferred stock issued to the LESOP has been recorded in the stockholders' equity section of the consolidated balance sheets, and the "Guaranteed LESOP obligation," representing borrowings by the LESOP, has been recorded as a reduction of stockholders' equity. As of January 25, 1997, approximately 946 thousand shares had been allocated to participants' accounts since 1988, and approximately 231 thousand shares were committed to be released in the next two years.

Preferred stock dividends. The preferred dividend is payable semi-annually at an annual rate of $2.37 per common equivalent share. Preferred dividends declared were $46 million in 1996, $48 million in 1995, and $50 million in 1994; on an after tax basis, the dividends amounted to $28 million in 1996, $29 million in 1995, and $31 million in 1994.

Preferred stock purchase rights. In 1990, the Board of Directors declared a dividend distribution of one new preferred stock purchase right on each outstanding share of common stock and authorized the redemption of the old preferred stock purchase rights for five cents per share, totaling $12 million. The preferred stock purchase rights, in accordance with the rights agreement, entitle the holder to purchase, for each right held, 1/400 of a share of Series A junior participating preferred stock at a price of $140. The rights are exercisable upon the occurrence of certain events and are redeemable by the Company under certain circumstances, all as described in the rights agreement.

12 COMMON STOCK

The quarterly common dividend was 52 cents per share in 1996, 48 cents per share in 1995, and 42 cents per share in 1994, or an indicated annual per share rate of $2.08 in 1996, $1.92 in 1995, and $1.68 in 1994. Common dividends declared were $471 million in 1996, $434 million in 1995, and $392 million in 1994.

The Company issued 1.8 million shares of its common stock in February 1995, in connection with the Kerr Drug acquisition and 5.2 million shares in October 1996, in connection with the Fay's acquisition. In addition, the Company issued 23.2 million shares of its common stock in connection with the Eckerd acquisition which will be recorded in the 1997 fiscal year.

Over the past three years the Board has authorized three share purchase programs. Their status as of January 25, 1997 is as follows:

	Common Share Purchases	
(in millions)	Shares	Cost
1994	10.0	$ 475
1995	7.5	335
1996	7.5	366
Total	25.0	$1,176

There were approximately 59,000 stockholders of record at year end 1996. In addition, the Company's savings plans, including the LESOP, had approximately 117,000 participants and held 34.1 million shares of the Company's common stock. The savings plans also held 0.9 million shares of preferred stock, convertible into 18.9 million shares of common stock. On a combined basis, these plans held approximately 22 per cent of the Company's common shares after giving effect to the conversion of the preferred stock at the end of fiscal year 1996.

Changes in outstanding common stock	Shares *(In thousands)*			Paid-in Capital *($ in millions)*		
	1996	1995	1994	1996	1995	1994
Balance at beginning of year	223,925	227,441	236,086	$1,112	$1,030	$1,003
Common stock issued	7,463	3,858	1,455	350	113	70
Common stock purchased and retired	(7,500)	(7,374)	(10,100)	(46)	(31)	(43)
Balance at end of year	223,888	223,925	227,441	$1,416	$1,112	$1,030

13 STOCK-BASED COMPENSATION

At January 25, 1997, the Company had two stock-based compensation plans: the 1993 Equity Compensation Plan (Plan) and the 1993 Non-Associate Directors' Equity Plan (Directors' Plan), both of which were approved by stockholders in May 1993. Under the Plan, 11.6 million shares of common stock were reserved for issuance upon the exercise of options and for the payment of stock awards over the five-year term of the Plan. Shares acquired through exercise of options generally have a two year retention requirement. Participants in the Plan are generally to be selected management associates of the Company and its subsidiaries and affiliates as determined by the committee administering the Plan. Approximately 2,000 associates are eligible to participate. No awards may be made under the Plan after May 31, 1998. Under the Directors' Plan, 90,000 shares of common stock were reserved for issuance upon the exercise of stock options and the payment of stock awards over its five-year term. Each director who is presently not an active employee of the Company will automatically be granted annually an option to purchase 800 shares, in tandem with an award of 200 restricted shares of common stock. An initial grant/award in this same amount will also automatically be made to each new Non-Associate Director upon his or her first being elected as a director. Such stock options will become exercisable six months from the date of grant, but shares acquired upon such exercise will not be transferable until a director terminates service. Under the plans, both the number of shares and the exercise price, which is based on the average market price, are fixed at the date of grant and have a maximum term of 10 years.

The Board of Directors has approved a new 1997 Equity Compensation Plan (1997 Plan) subject to stockholder approval at the annual meeting which will be held May 16, 1997. The 1997 Plan will initially reserve 14 million shares for issuance, which number may be increased in certain circumstances as set forth in the 1997 Plan, as more fully described in the Company's 1997 Proxy Statement. The 1997 Plan also provides for grants of stock options and stock awards to members of the Board of Directors not otherwise employed by the Company. If the 1997 Plan is approved, no future grants will be made under the existing Plan or the Directors' Plan.

The Company has elected to continue accounting for stock-based compensation under the provisions of APB No. 25, *Accounting for Stock Issued to Employees.* Accordingly, net income and earnings per share shown in the consolidated statements of income appearing on page 19 do not reflect any compensation cost for the Company's fixed stock options. In accordance with SFAS No. 123, *Accounting for Stock-Based Compensation,* the fair value of each fixed option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	1996	1995
Dividend yield	3.9%	3.9%
Expected volatility	22.3%	21.9%
Risk-free interest rate	5.6%	7.0%
Expected option term	5 years	5 years
Fair value per share of options granted	$ 8.88	$ 8.20
SFAS 123 compensation expense (millions)	$ 11	$ 11

The effect on earnings per share of recording compensation expense under SFAS No. 123 was a reduction of about four cents per share in 1996 and 1995.

For stock and restricted stock awards granted under the Plan, the Company records compensation expense at the date of grant or over the vesting period. In 1996 and 1994 stock awards were not material. In 1995, the Company issued 531 thousand shares of its common stock in connection with its Shareholder Value Award (SVA) program, which was a performance-based stock award plan. The SVA program awarded shares to approximately 2,000 management associates and vested over the 1993 to 1995 period. Compensation expense was recorded over the vesting period based on the end of the year market price, and accordingly the Company recorded compensation expense of $6 million in 1995 and $25 million in 1994.

The following table summarizes the status of the Company's fixed stock option plans as of January 25, 1997, January 27, 1996, and January 28, 1995, and changes for the years then ended:

Stock options	1996 Shares (In thousands)	1996 Weighted Average Option Price	1995 Shares (In thousands)	1995 Weighted Average Option Price	1994 Shares (In thousands)	1994 Weighted Average Option Price
Balance at beginning of year	8,867	$33.40	8,347	$31.36	8,235	$27.96
Granted	1,266	47.51	1,230	43.00	997	55.31
Exercised	(1,427)	27.39	(689)	25.67	(865)	26.51
Expired and cancelled	(73)	42.49	(21)	38.63	(20)	32.68
Balance at end of year	8,633	$36.39	8,867	$33.40	8,347	$31.36
Options exercisable at year-end	7,419	34.54	7,637	31.87	7,354	28.13

14 INTEREST EXPENSE, NET

($ in millions)	1996	1995	1994
Short term debt	$102	$129	$ 92
Long term debt	312	254	225
Income on short term investments	(22)	(18)	(16)
Interest capitalized	(10)	(8)	(3)
Other, net*	(23)	(32)	(28)
Interest expense, net	$359	$325	$270

* *Includes $34 million in each year for interest income from the Company's investment in asset-backed certificates.*

15 RENT EXPENSE

The Company conducts the major part of its operations from leased premises which include retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises. Rent expense for real property operating leases was:

($ in millions)	1996	1995	1994
Minimum rents	$285	$245	$235
Contingent rents based on sales	48	36	37
Total	$333	$281	$272

The Company also leases data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense for personal property leases was $106 million in 1996, $106 million in 1995, and $92 million in 1994.

Future minimum lease payments for noncancelable real and personal property operating leases and subleases as of January 25, 1997 were:

($ in millions)	Operating Leases
1997	$ 394
1998	356
1999	308
2000	279
2001	232
Thereafter	1,508
Total minimum lease payments	$3,077
Present value	$1,800
Weighted average interest rate	10%

1996 drugstore acquisitions account for $1,458 million of minimum rents having a present value of $700 million.

The minimum lease payments are shown net of estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

16 ADVERTISING COSTS

Advertising costs consist principally of newspaper, television, radio, and catalog book costs. In 1996, the total cost of advertising was $988 million, compared with $969 million in 1995, and $912 million in 1994. The consolidated balance sheets included deferred catalog book costs of $98 million at January 25, 1997, $111 million at January 27, 1996, and $99 million at January 28, 1995, and are included in other assets.

17 RETIREMENT PLANS

($ in millions)	1996	1995	1994
Pension			
Service cost	$ 69	$ 44	$ 57
Interest cost	165	148	134
Actual return on assets	(386)	(464)	(22)
Net amortization and deferral	179	302	(181)
Pension charge/(credit)	27	30	(12)
Post-retirement health care			
Service cost	4	3	3
Interest cost	21	23	25
Net amortization and deferral	(5)	(2)	—
Post-retirement health care charge	20	24	28
LESOP expense	56	53	53
Total retirement plans	$ 103	$ 107	$ 69

Pension plan. JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months and have attained 21 years of age. In addition, the Company has an unfunded, noncontributory, supplemental retirement program for certain management employees. In general, benefits payable under the principal pension plan are determined by reference to a participant's final average earnings and years of credited service up to 35 years. Eckerd has a pension plan which is noncontributory and covers its employees who have completed 12 consecutive months of service and have attained age 21.

In 1996, the Company increased its discount rate to 8.0 per cent, reflecting a higher interest rate environment. The impact of this change decreased the Company's obligation at year end 1996. Pension plan assumptions are reviewed and modified as necessary on an annual basis. The Company made contributions to the plan in 1996, 1995, and 1994 in the amounts of $119, $104, and $99 million, respectively. Benefits paid were $110 million in 1996, $101 million in 1995, and $96 million in 1994.

Post-retirement health care benefits. The Company's retiree health care plan (Retiree Plan) covers medical and dental services, and eligibility for benefits is based on age and years of service. The Retiree Plan is contributory and the amounts paid by retired employees have increased in recent years and are expected to continue to do so. For certain groups of employees, Company contributions toward the cost of retiree coverage will be based on a fixed dollar amount which will vary with years of service, age, and dependent coverage. The Retiree Plan is funded on a pay-as-you-go basis by the Company and retiree contributions.

The Company uses the same discount rate for both its pension plan and Retiree Plan. The health care trend rate was lowered to 7.0 per cent for 1997 with gradual reductions to five per cent over the next several years. A one per cent increase in the health care trend rate would increase the amount reported for the accumulated obligation by $22 million and would result in $2 million additional expense for 1996.

LESOP. The Company's LESOP, adopted in 1988, is a defined contribution plan which covers substantially all United States employees who have completed at least 1,000 hours of service within a period of 12 consecutive months, and if hired on or after January 1, 1988, have attained 21 years of age.

The LESOP borrowed $700 million at an interest rate of 8.17 per cent through a 10 year loan guaranteed by the Company. The LESOP used the proceeds of the loan to purchase a new issue of convertible preferred stock from the Company. As the Company makes contributions to the LESOP, these contributions, plus the dividends paid on the Company's preferred stock held by the LESOP, will be used to repay the loan. As the principal amount of the loan is repaid, the "Guaranteed LESOP obligation" is reduced accordingly. The loan will be fully paid in January 1998.

Retirement plans *($ in millions)*	December 31 1996	1995	1994
Pension			
Present value of accumulated benefits			
Vested	$ 1,836	$ 1,817	$ 1,368
Non-vested	59	94	75
	$ 1,895	$ 1,911	$ 1,443
Present value of projected benefit obligation	$(2,187)	$ (2,183)	$(1,661)
Net assets at fair market value	2,735	2,292	1,825
Unrecognized transition asset, net of unrecognized losses	23	345	200
Net prepaid pension cost	$ 571	$ 454	$ 364
Post-retirement health care benefits			
Accumulated benefit obligations			
Retirees	$ 232	$ 249	$ 217
Fully eligible active participants	27	30	43
Other active participants	32	39	40
	291	318	300
Unrecognized net gains	45	19	32
Net liability	$ 336	$ 337	$ 332
Key assumptions			
Rate of return on pension plan assets	9.5%	9.5%	9.5%
Discount rate	8.0%	7.25%	8.75%
Salary progression rate	4.0%	4.0%	4.0%

18 BUSINESS ACQUISITION AND CONSOLIDATION EXPENSES

During the third and fourth quarters of 1996, the Company recorded costs totaling $354 million on a pre-tax basis, or 92 cents per share, which are principally related to drugstore acquisitions, and are reported as Business Acquisition and Consolidation Expenses on the consolidated income statement. The largest component of such costs are related to the Company's agreement with the Federal Trade Commission (FTC) to divest certain drugstores in North Carolina and South Carolina.

These expenses consisted of the following:

Drugstore closings*	$ 188
Asset write-downs	104
Other integration costs	62
Total	$ 354
Income taxes	(126)
Business acquisition and consolidation expenses, net	$ 228

* *Includes the effects of the FTC agreement as well as other overlap and unproductive stores.*

19 TAXES

Deferred tax assets and liabilities reflected on the Company's consolidated balance sheet at January 25, 1997 were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition to the amounts shown in the table, the Company recognized a $48 million deferred tax asset related to Eckerd operating loss carryforwards for which an offsetting valuation reserve of an equal amount has been established. No other valuation allowances have been considered necessary for any year.

The major components of deferred tax (assets)/liabilities at January 25, 1997, January 27, 1996, and January 28, 1995 were as follows:

Temporary differences *($ in millions)*	1996	1995	1994
Assets:			
Workers' compensation/ public liability	$ (92)	$ (101)	$ (100)
Accounts receivable	(44)	(33)	(29)
Business acquisition and consolidation expenses	(73)	—	—
Vacation pay	(55)	(11)	(9)
Other	(19)	—	(69)
Liabilities:			
Retirement plans	93	51	12
Leases	318	332	338
Merchandise inventories	138	104	94
Depreciation and amortization	932	774	757
Deferred acquisition costs	192	174	160
Other	—	5	—
Total*	$1,390	$1,295	$1,154

* *1996 deferred taxes include amounts related to the Fay's and Eckerd drugstore acquisitions totaling $115 million.*

Income tax expense *($ in millions)*	1996	1995	1994
Current			
Federal	$ 321	$ 306	$ 521
State and local	43	56	92
	364	362	613
Deferred			
Federal	(19)	124	25
State and local	(1)	17	4
	(20)	141	29
Total	$ 344	$ 503	$ 642
Effective tax rate	37.9%	37.5%	37.8%

	Amounts *($ in millions)*			Per cent of Pre-tax income		
Reconciliation of tax rates	1996	1995	1994	1996	1995	1994
Federal income tax at statutory rate	$318	$469	$594	35.0	35.0	35.0
State and local income taxes, less federal income tax benefit	27	49	65	3.0	3.6	3.8
Tax effect of dividends on allocated LESOP shares	(12)	(11)	(9)	(1.3)	(.8)	(.5)
Tax credits and other	11	(4)	(8)	1.2	(.3)	(.5)
Total	$344	$503	$642	37.9	37.5	37.8

20 SEGMENT REPORTING

The Company operates in three business segments: Stores and Catalog, Drugstores, and Insurance. Other items are shown in the table below for purposes of reconciling to total Company consolidated amounts.

($ in millions)	Year	Revenue	Operating Earnings	Total Assets	Capital Expenditures	Depreciation and Amortization
Stores and Catalog	1996	$19,506	$1,183	$14,754	$680	$325
	1995	18,711	1,199	13,744	689	308
	1994	18,840	1,508	13,381	475	298
Drugstores	1996	3,147	135	4,389	103	41
	1995	1,851	68	618	53	26
	1994	1,540	54	469	59	18
Insurance	1996	832	186	1,986	7	5
	1995	693	157	1,741	7	3
	1994	564	127	1,360	10	3
Total Segments	1996	23,485	1,504	21,129	790	371
	1995	21,255	1,424	16,103	749	337
	1994	20,944	1,689	15,210	544	319
Business Acquisition and Consolidation Expenses	1996		(354)			
Net Interest and Credit Operations	1996		(278)			
	1995		(183)			
	1994		(93)			
Other	1996	164	37	959		10
	1995	164	100	999		4
	1994	138	103	992		4
Total Company	1996	23,649	909	22,088	790	381
	1995	21,419	1,341	17,102	749	341
	1994	21,082	1,699	16,202	544	323

(1) Total Company operating earnings equals income before income taxes as shown on the Company's consolidated statements of income.

(2) Other revenue includes bank and insurance capital gains.

(3) Other operating income includes the banking and business services operations, insurance capital gains, real estate operations, LIFO adjustments, amortization of goodwill and other intangible assets, and minority interest.

	First			Second			Third			Fourth		
($ in millions except per share data)	1996	1995	1994	1996	1995	1994	1996	1995	1994	1996	1995	1994
Retail sales	4,452	4,367	4,350	4,507	4,435	4,242	5,537	5,128	5,149	8,157	6,632	6,639
per cent inc/(dec)	1.9	0.4	9.7	1.6	4.6	7.1	8.0	(0.4)	8.7	23.0	(0.1)	5.0
Total revenue	4,692	4,564	4,519	4,753	4,643	4,412	5,788	5,352	5,328	8,416	6,860	6,823
per cent increase	2.8	1.0	10.0	2.4	5.3	7.4	8.1	0.4	9.0	22.7	0.5	5.3
LIFO gross margin	1,355	1,370	1,395	1,312	1,292	1,282	1,701	1,592	1,661	2,242	1,975	2,072
per cent of retail sales	30.4	31.4	32.1	29.1	29.1	30.2	30.7	31.0	32.2	27.5	29.8	31.2
FIFO gross margin												
per cent of retail sales	30.4	31.4	32.1	29.1	29.1	30.2	30.7	31.0	32.2	27.3	29.5	31.2
Selling, general, and administrative expenses	1,154	1,148	1,092	1,150	1,107	1,079	1,247	1,201	1,204	1,688	1,439	1,408
per cent of retail sales	25.9	26.3	25.1	25.5	25.0	25.5	22.5	23.4	23.4	20.7	21.7	21.2
Net income	142	156	223	93	116	132	236	240	274	94	326	428
Net income per common share												
Primary	0.58	0.63	0.88	0.37	0.46	0.52	0.98	1.00	1.11	0.36	1.39	1.78
Fully diluted	0.57	0.61	0.84	0.37	0.46	0.51	0.95	0.95	1.04	0.36	1.31	1.66
Dividends per common share	0.52	0.48	0.42	0.52	0.48	0.42	0.52	0.48	0.42	0.52	0.48	0.42
Common stock price range												
High	52	47	59	53	50	54	57	50	54	54	49	52
Low	46	41	50	47	43	47	49	43	47	46	42	39
Close	50	44	54	50	49	49	53	44	51	48	46	41

General. The following information is provided as a supplement to the Company's audited financial statements. Its purpose is to facilitate an understanding of the Company's credit operations, capital structure, and cash flows.

Credit Operations. The following presents the results of the Company's proprietary credit card operation and shows both the net cost of credit in support of the Company's retail businesses and the net cost of credit measured on an all-inclusive, economic basis. The "economic basis" of the cost of credit includes the cost of equity capital in addition to debt used to finance accounts receivable balances. The cost of equity capital is based on the Company's minimum return on equity objective of 16 per cent. The results presented below cover all JCPenney credit card accounts receivable, both owned and those sold under securitization transactions.

Pre-tax cost of JCPenney credit card

($ in millions)	1996	1995	1994
Finance charge revenue			
On receivables owned	$ (641)	$ (631)	$ (624)
On receivables sold	(118)	(112)	(105)
Total	(759)	(743)	(729)
Bad debt expense	311	256	208
Operating expenses (including in-store costs)	251	255	268
Interest expense on debt financing	281	278	269
Total costs	843	789	745
Pre-tax cost of credit – retail operations	84	46	16
Pre-tax cost of equity capital	138	137	135
Pre-tax cost of credit – economic basis	222	183	151
Per cent of JCPenney credit sales	2.4%	2.0%	1.6%

Credit sales	1996		1995		1994	
(Stores and Catalog)	Amounts *(In billions)*	Per cent of Eligible Sales	Amounts *(In billions)*	Per cent of Eligible Sales	Amounts *(In billions)*	Per cent of Eligible Sales
JCPenney credit card	$ 9.1	46.9	$ 9.0	48.4	$ 9.4	49.6
Third party credit cards	4.1	21.2	3.7	19.8	3.4	17.9
Total	$13.2	68.1	$12.7	68.2	$12.8	67.5

Key JCPenney credit card information

($ in millions)	1996	1995	1994
Number of accounts serviced with balances	17.0	17.0	17.6
Total customer receivables serviced	$5,006	$4,688	$4,751
Average customer receivables financed	4,322	4,258	4,197
Average account balances (in dollars)	295	275	269
Average account maturity (months)	4.5	4.3	4.2
90-day delinquencies	3.7%	3.3%	2.5%

Capital structure. The Company's objective is to maintain a capital structure that will assure continuing access to financial markets so that it can, at reasonable cost, provide for future needs and capitalize on attractive opportunities for growth.

The debt to capital ratio shown in the table below includes both debt recorded on the Company's consolidated balance sheet as well as off-balance-sheet debt related to operating leases and the securitization of a portion of the Company's customer accounts receivable (asset-backed certificates).

Debt to capital *($ in millions)*	1996	1995	1994
Short term debt, net of cash investments	$ 3,818	$ 1,168	$ 1,737
Long term debt, including current maturities	4,815	4,080	3,335
	8,633	5,248	5,072
Off-balance-sheet debt			
Present value of operating leases	1,800	1,000	1,000
Securitization of accounts receivable, net	374	294	294
Total debt	10,807	6,542	6,366
Consolidated equity	5,952	5,884	5,615
Total capital	$16,759	$12,426	$11,981
Per cent of total debt to capital	64.5%	52.6%	53.1%
After completion of the Eckerd transaction	60.1%		

The Company builds its capital base according to the different needs and credit characteristics of its customer receivables and its other core retail assets. Customer receivables are highly diversified and predictable financial assets, very different from the core assets of a retailer, which include fixed assets and merchandise inventories for stores

and catalog. Accordingly, the Company finances receivables with more leverage, much like a finance company. The standards for these assets are a debt ratio of approximately 88 per cent, and interest coverage of about 1.5 times. Core assets are financed with less leverage and are more comparable to the leverage of non-retail industrial companies with strong credit ratings. The Company's capital structure after completion of the Eckerd transaction in February 1997 was:

($ in millions)	Customer Receivables	Core Assets	Combined
Debt	$ 4,288	$ 6,519	$10,807
Equity	613	6,569	7,182
Total capital	$ 4,901	$13,088	$17,989
Debt to capital per cent	87.5%	49.8%*	60.1%

* *Includes acquisition capital. Excluding such capital would reduce the ratio to 37.1 per cent.*

The historical debt to capital per cent and fixed charge coverage for the prior three years, on a separate and combined basis, was:

Debt to capital per cent	1996	1995	1994
Combined	60.1	52.6	53.1
Core assets	49.8	32.1	31.1
Customer receivables	87.5	87.5	87.5

Fixed charge coverage	1996	1995	1994
Combined	2.4	3.4	4.5
Core assets	3.8	6.0	9.1
Customer receivables	1.5	1.5	1.5

Financing costs incurred by the Company to finance its operations, including those costs related to off-balance-sheet liabilities, were as follows:

($ in millions)	1996	1995	1994
Interest expense, net	$359	$325	$270
Interest portion of LESOP debt payment	17	23	30
Off-balance-sheet financing costs			
Interest imputed on operating leases	110	102	95
Asset-backed certificates interest	68	68	68
Total	$554	$518	$463

Earnings before interest, taxes, depreciation, and amortization (EBITDA). Management believes that a key measure of cash flow generated is EBITDA. The following schedule shows the calculation of EBITDA and EBITDA as a per cent of total revenue.

($ in millions)	1996	1995	1994
Earnings before business acquisition and consolidation expenses and income taxes	$ 1,263	$ 1,341	$ 1,699
Financing costs	554	518	463
Depreciation and amortization	381	341	323
EBITDA	$ 2,198	$ 2,200	$ 2,485
Total revenue	$23,649	$21,419	$21,082
EBITDA as a per cent of total revenue	9.3%	10.3%	11.8%

EBITDA by operating segment*

($ in millions)	1996	1995	1994
Stores and Catalog			
EBITDA	$1,754	$ 1,820	$ 2,161
as a per cent of sales	9.0%	9.7%	11.5%
Drugstores			
EBITDA	$ 206	$ 116	$ 87
as a per cent of sales	6.5%	6.3%	5.6%
Insurance			
EBITDA	$ 191	$ 160	$ 130
as a per cent of revenue	23.0%	23.1%	23.0%

* *EBITDA for the operating segments differs from operating earnings by depreciation, amortization, off-balance-sheet financing, and net credit costs.*

Credit ratings. Over the years, the Company has maintained one of the highest credit ratings in the retail industry. The Company's objective is to maintain a strong investment grade rating on its senior long term debt and commercial paper. Currently, the credit ratings for the Company are as follows:

	Long Term Debt	Commercial Paper
Standard & Poor's Corporation	A	A1
Moody's Investors Service	A2	P1
Fitch Investors Service, Inc.	A	F1

J.C. Penney Company, Inc. and Subsidiaries

($ in millions except per share data)	1996	1995	1994	1993	1992
Results for the year					
Total revenue	$23,649	$21,419	$21,082	$19,578	$18,515
Retail sales	22,653	20,562	20,380	18,983	18,009
per cent increase	10.2	0.9	7.4	5.4	11.2
FIFO gross margin as a per cent of retail sales	29.1	30.2	31.5	31.3	31.5
LIFO gross margin as a per cent of retail sales	29.2	30.3	31.5	31.5	31.7
Selling, general, and administrative expenses as a per cent of retail sales	23.1	23.8	23.5	23.7	24.7
Depreciation and amortization	381	341	323	316	310
Income taxes	344	503	642	610	482
Earnings before business acquisition and consolidation expenses, net of tax	793	838	1,057	944	777
Return on stockholders' equity	13.5	14.9	19.7	20.1	18.6
Net income	565	838	1,057	940	777
per cent to total revenue per common share	2.4	3.9	5.0	4.8	4.2
Per common share:					
Earnings before business acquisition and consolidation expenses, net of tax					
Primary	3.29	3.48	4.29	3.79	3.15
Fully diluted	3.17	3.33	4.05	3.55	2.95
Net income					
Primary	2.29	3.48	4.29	3.77	3.15
Fully diluted	2.25	3.33	4.05	3.53	2.95
Dividends	2.08	1.92	1.68	1.44	1.32
Stockholders' equity	25.67	24.76	23.45	21.53	19.17
Financial position					
Receivables, net	5,757	5,207	5,159	4,679	3,750
Merchandise inventories	5,722	3,935	3,876	3,545	3,258
Properties, net	5,014	4,281	3,954	3,818	3,755
Capital expenditures	790	749	544	459	494
Total assets	22,088	17,102	16,202	14,788	13,467
Total debt	8,765	5,589	5,427	4,561	4,078
Stockholders' equity	5,952	5,884	5,615	5,365	4,705
Number of common shares outstanding at year end	224	224	227	236	235
Weighted average common shares					
Primary	229	229	237	239	236
Fully diluted	248	249	258	261	258
Number of employees at year end *(In thousands)*	252	205	202	193	192

J.C. Penney Company, Inc. and Subsidiaries

	1996	1995	1994	1993	1992
JCPenney stores					
Number of stores					
Beginning of year	1,238	1,233	1,246	1,266	1,283
Openings	36	43	29	24	33
Closings	(46)	(38)	(42)	(44)	(50)
End of year	1,228	1,238	1,233	1,246	1,266
Gross selling space *(In million sq. ft.)*	117.2	114.3	113.0	113.9	114.4
Sales *(In millions)*	$15,734	$14,973	$15,023	$14,056	$13,460
Sales including catalog desks *(In millions)*	18,694	17,930	18,048	16,846	15,698
Sales per gross square foot	159	156	159	146	137
Catalog					
Number of catalog units					
JCPenney stores	1,226	1,228	1,233	1,246	1,266
Freestanding sales centers and merchants	552	548	552	543	640
Drugstores	107	106	94	101	128
Other, principally outlet stores	17	17	16	14	14
Total	1,902	1,899	1,895	1,904	2,048
Number of fulfillment centers	6	6	6	6	6
Distribution space *(In million sq. ft.)*	11.4	11.4	11.4	11.4	11.4
Sales *(In millions)*	$ 3,772	$ 3,738	$ 3,817	$ 3,514	$ 3,166
Drugstores					
Number of stores					
Beginning of year	645	526	506	548	530
Openings	47	37	46	35	30
Drugstore acquisitions	2,020	97	—	—	—
Closings	(13)	(15)	(26)	(77)	(12)
End of year	2,699	645	526	506	548
Gross selling space *(In million sq. ft.)*	26.4	6.2	4.5	4.6	5.2
Sales *(In millions)*	$ 3,147	$ 1,851	$ 1,540	$ 1,413	$ 1,383
Sales per gross square foot	261	253	243	235	211
JCPenney Insurance *(In millions)*					
Revenue	$ 832	$ 693	$ 564	$ 461	$ 376
Policies and certificates in force	10.4	9.0	7.5	5.8	4.6
Amount of life insurance in force	9,990	9,559	8,780	7,627	6,552
Total assets	1,986	1,741	1,360	1,246	1,033

James Cash Penney, founder of the JCPenney Company, left a legacy of partnership and community responsibility, hard work and moral principle, which the Company continues to affirm today. The legacy lives not only in the Company's business integrity and fair dealing, but in its dedication of financial and human resources to help meet today's social needs.

Community relations. During 1996, the Company's charitable contributions totalled $30.7 million nationwide, representing $25.0 million in cash contributions and $5.7 million of in-kind contributions. The majority of these contributions were made by JCPenney stores and other units to community charitable organizations. Priority was given to programs that address our target issues of pre-kindergarten through twelfth-grade education; encouraging and promoting volunteerism; and supporting the United Way.

In addition to financial support of education, JCPenney hosted its second Community Expo, a one-day conference for Dallas-area associates and elementary parents from neighboring school districts on parenting and education issues, and conducted two more broadcasts in a series titled the "JCPenney Leadership Institute on School Improvement" to 300 locations nationwide. The Company also launched a new "JCPenney Community Education Grants Program" with $500,000 in grants for ten metropolitan communities around the country to provide funds for schools that want to enhance school-based management efforts, increase effective parent involvement in schools, or bring curriculum up and beyond meeting minimum standards. Enlisting customer enthusiasm and support, JCPenney sponsored a "Support Our Schools" night in November, raising more than $3 million for local schools nationwide.

Our primary support of volunteerism is the continued sponsorship of our Golden Rule Award Program, now in 221 markets. These awards publicly honor community volunteers and support their work with contributions. The James Cash Penney Awards for Community Service provide similar recognition to JCPenney associates for their outstanding volunteer activities. These two programs contributed over $1.8 million to local charitable organizations. The 1996 United Way campaign raised a Company record of over $17 million in JCPenney associate and unit pledges for nearly 1,000 United Way organizations.

In support of wellness and physical fitness for women and girls, JCPenney continued as the national presenting sponsor of the Susan G. Komen Breast Cancer Foundation Race for the Cure. JCPenney associates supported local races in 63 cities as volunteers, runners, or walkers. Raising nearly $740,000 for the prevention and cure of birth defects, associates actively supported the March of Dimes WalkAmerica in over 100 markets. Now in its 20th year, the JCPenney Golf Classic has raised $8.9 million for Florida Suncoast Charities since its inception. Additionally, the JCPenney/LPGA Skins Tournament raised over $200,000 for Easter Seals of North Texas in 1996. Since 1978, JCPenney has participated in the Olympic Committee's Job Opportunities Program, allowing potential U.S. Olympic athletes to work toward building a career and have time to train, without the loss of full-time compensation or benefits. During 1993 to 1996 JCPenney employed 46 such athletes, 10 who were members of the 1996 U.S. Olympic team.

The fifth JCPenney Juanita Kreps Award Honoring the Spirit of the American Woman was awarded to Beverly Sills in recognition of her outstanding accomplishments as a performing artist and a businesswoman and for her commitment to her family and to the community. JCPenney co-sponsored women's conferences in 24 cities across the country. These forums bring together women from every diversity and provide information and demonstrations on items of interest ranging from fashion and fitness to career and childcare. The Spirit of the American Woman Award is included in several of these conference programs and is given to an outstanding local woman for her contribution to her community, her involvement with her family, or her achievements in her career. During 1996, the Company participated in over 30 special events and conferences through our Multicultural Affairs department, including our Eighth Annual Hispanic Designers Model Search. Since 1993, the Company has served as the retail sponsor of the Essence Awards and, in 1996, continued our major sponsorship of the Bravo Awards, in cooperation with the National Council of La Raza.

Supplier diversity development. Through continued participation in national and local conferences and trade fairs, purchases of merchandise and services from minority and women-owned businesses for 1996 increased to $439 million and $237 million, respectively. Additionally, the Company

had relationships with 13 minority-owned banks, and one women-owned bank. Annually, JCPenney's Supplier Diversity Development Awards Program honors associates and suppliers. Associates are honored for their continuous efforts in developing minority and women-owned supplier relationships. Suppliers are honored for outstanding performance demonstrated in supplying merchandise and services to the Company. The Company continued its $1 million investment in the National Minority Supplier Development Council's (NMSDC) Business Consortium Fund, which makes loans to minority businesses.

JCPenney's Minority Supplier Development Program was firmly established in 1972, the same year we became a corporate member of the NMSDC, a nationwide link between corporations and minority-owned businesses. NMSDC contributes significantly to our ongoing efforts towards the development of mutually beneficial business relationships with minority-owned businesses. Women-owned businesses became a part of our program in 1993. JCPenney was a charter member of the North Texas Women's Business Council, which provides certification for women-owned businesses.

Environmental affairs. JCPenney continuously seeks to assure that its operations, to the fullest extent feasible, preserve and improve the environment and protect the health and safety of associates, customers, and our communities. Our commitment to doing business in an environmentally responsible manner includes a determination to make environmental considerations a factor in corporate decision making and policy. An Environmental Affairs Committee composed of senior officers set forth a Statement of Principles on the Environment which reflects the Company's commitment to these goals.

The Company's Environmental Issues Task Force consists of various subcommittees that study specific matters such as merchandise packaging, recycling, and trash disposal. The Company currently uses recycled-content paperboard for all apparel, jewelry, and gift boxes and continues to explore sources of recycled-content paper for advertising supplements, catalogs, and other printed material. Stores recycle most of the corrugated cardboard boxes in which merchandise shipments are received and 82% of waste from our Catalog Fulfillment Centers is recycled, including paper, glass, aluminum, and batteries. Office paper, periodicals, catalogs, aluminum and plastic are recycled at the Company's Home Office, as well as in a number of other facilities. In addition, an Environmental Packaging Excellence Award encourages environmental consciousness by recognizing associates who develop packaging solutions that meet Company environmental criteria. JCPenney stores and other Company facilities have joined forces with the Environmental Protection Agency, through its Green Lights Program, to reduce air pollution through the use of energy-efficient lighting and lighting controls.

Copies of the Company's Special Report Update on its Environmental Responsibility, including the Company's Statement of Environmental Principles, may be obtained as indicated on page 44.

Equal employment opportunity. The Company adheres to a policy of equal employment opportunity. The following employment information summary represents associates of J. C. Penney Company, Inc. and subsidiaries, excluding associates in Puerto Rico, Canada, Chile, and Mexico. The information provided delineates minority and female representation in major job categories.

Employment information	Total Employed		Per cent Female		Per cent Minority	
	1996	1992	1996	1992	1996	1992
Officials, managers and professionals	29,157	18,804	48.1%	46.1%	16.7%	11.3%
Management trainees	412	575	72.1%	65.6%	31.8%	27.3%
Sales workers	135,923	97,971	85.0%	87.9%	25.2%	12.8%
Office and clerical workers	39,478	30,266	87.3%	89.0%	22.5%	17.3%
Technicians, craft workers, operatives, laborers and service workers	44,357	41,202	67.2%	71.4%	30.0%	22.4%
Total	249,327	188,818	77.9%	80.3%	24.6%	18.1%

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders, and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney.

Independent Board of Directors. In keeping with its longstanding practice, the Company's Board continues to be an independent board under any reasonable definition. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience, and achievements that the directors possess in business, investments, large organizations, and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

Independent committees. The Audit Committee, Benefit Plans Review Committee, Committee on Directors, Personnel and Compensation Committee, and the Public Affairs Committee, all standing committees of the Board of Directors, are composed entirely of directors who are not employees of the Company. These committees, as well as the entire Board, consult with and are advised by outside consultants and experts in connection with their deliberations as needed.

Executive compensation. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the annual and long-term sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Personnel and Compensation Committee, which is composed entirely of directors who are not employees of JCPenney and which receives the advice of independent outside consultants. Please refer to the Company's 1997 Proxy Statement for a report from the Company's Personnel and Compensation Committee describing how compensation determinations are made.

Confidential voting. The Company has previously adopted a confidential voting policy statement. Under this policy, all proxy (voting instruction) cards, ballots, and vote tabulations that identify the particular vote of a stockholder are kept secret from the Company, its directors, officers, and employees. Proxy cards are returned in envelopes directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers, and employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers, or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

Board of Directors

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Formerly Chairman and Chief Executive Officer, Eastman Kodak Company

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R. Gerald Turner[4,5]
President, Southern Methodist University

W. Barger Tygart[6]
President and Chief Operating Officer

Joseph D. Williams[1,2,3,4]
Retired Chairman and Chief Executive Officer, Warner-Lambert Company

Management Committee

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Chairman of the Board and Chief Executive Officer

John T. Cody, Jr.
President of JCPenney Stores

Gary L. Davis
Senior Vice President, Director of Human Resources and Administration

Gale Duff-Bloom
President, Marketing and Company Communications

David V. Evans
Senior Vice President, Director of Information Systems

John E. Fesperman
Senior Vice President, Director of Planning, Facilities, and International Development

Thomas D. Hutchens
President of Merchandising Worldwide

Charles R. Lotter
Executive Vice President, Secretary and General Counsel

William E. McCarthy
President of Catalog and Distribution

Donald A. McKay
Senior Vice President and Chief Financial Officer

Francis A. Newman
Chairman of the Board, President and Chief Executive Officer of Eckerd Corporation

Ted L. Spurlock
Senior Vice President, Director of Financial Services and Government Relations

W. Barger Tygart
President and Chief Operating Officer

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The committee also reviews the audit plans, scope, fees, and audit results of the auditors, reports on the adequacy of internal accounting controls; non-audit services and related fees; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.
2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends, community affairs, and public policy issues that may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.
3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.
4. Member of the Personnel and Compensation Committee. This committee reviews the Company's annual and long term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. It is also the committee that administers certain of the Company's incentive and equity compensation plans.
5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans. It is also the committee that administers certain of the Company's retirement and welfare plans.
6. Member of the Finance Committee. This committee is responsible for reviewing the Company's financial policies, strategies, and capital structure.

[Annual Meeting]

Our Annual Meeting of Stockholders will be held at 10 a.m. local time, Friday, May 16, at the Company's Home Office located at 6501 Legacy Drive, Plano, Texas 75024-3698. You are cordially invited to attend. The Annual Report and Proxy Statement, including a request for proxies, were mailed to stockholders on or about April 11, 1997.

[Stockholder Relations]

Transfer Agent/Registrar

Inquiries about your stockholder records should be forwarded to:

ChaseMellon Shareholder Services L.L.C.
Shareholder Relations Department
P.O. Box 3316
South Hackensack, N.J. 07606
1-800-842-9470

Exchange Listing

The New York Stock Exchange
(Ticker symbol - JCP)

Stockholder Investor Services Program

Investors may acquire shares of JCPenney common stock directly through a dividend reinvestment/direct purchase program as an alternative to broker assisted purchases. This program, which is being administered by The Chase Manhattan Bank, is available to both new and existing stockholders. The minimum investment requirement is $25 for existing stockholders, and is available to new stockholders after a minimum initial investment of $250.

The program offers full or partial dividend reinvestment as well as payment of dividends by check or electronic deposit. In addition, the program offers safekeeping of stock certificates, transfers or gifts of JCPenney shares, and the ability to sell or withdraw shares by telephone. To receive more information about this program, call 1-800-565-2576.

Quarterly Newsletter

If you are not currently receiving the quarterly newsletter to stockholders and would like to do so, please write to us or contact us by fax, (972) 431-2212. You may also receive the quarterly newsletter from Public Relations through our home page on the Internet.

Internet Access

Other public financial information is available through the Internet. Our Internet address is www.jcpenney.com

[Financial/Other Information]

Copies of the following are available upon request:

- The Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission
- Eckerd Corporation's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission
- JCPenney Quarterly News, a financial update
- JCPenney Minority Business Opportunities, a handbook to minority suppliers
- JCPenney Community Partners, the Company's social responsibility report
- JCPenney's Special Report Update on Its Environmental Responsibility
- JCPenney Funding Corporation's Annual Report

Requests for the above should be addressed to:

Public Relations Department
J.C. Penney Company, Inc.
P.O. Box 10001
Dallas, Texas 75301-4301
1-800-953-9421

Sales Release Dates for Fiscal 1997

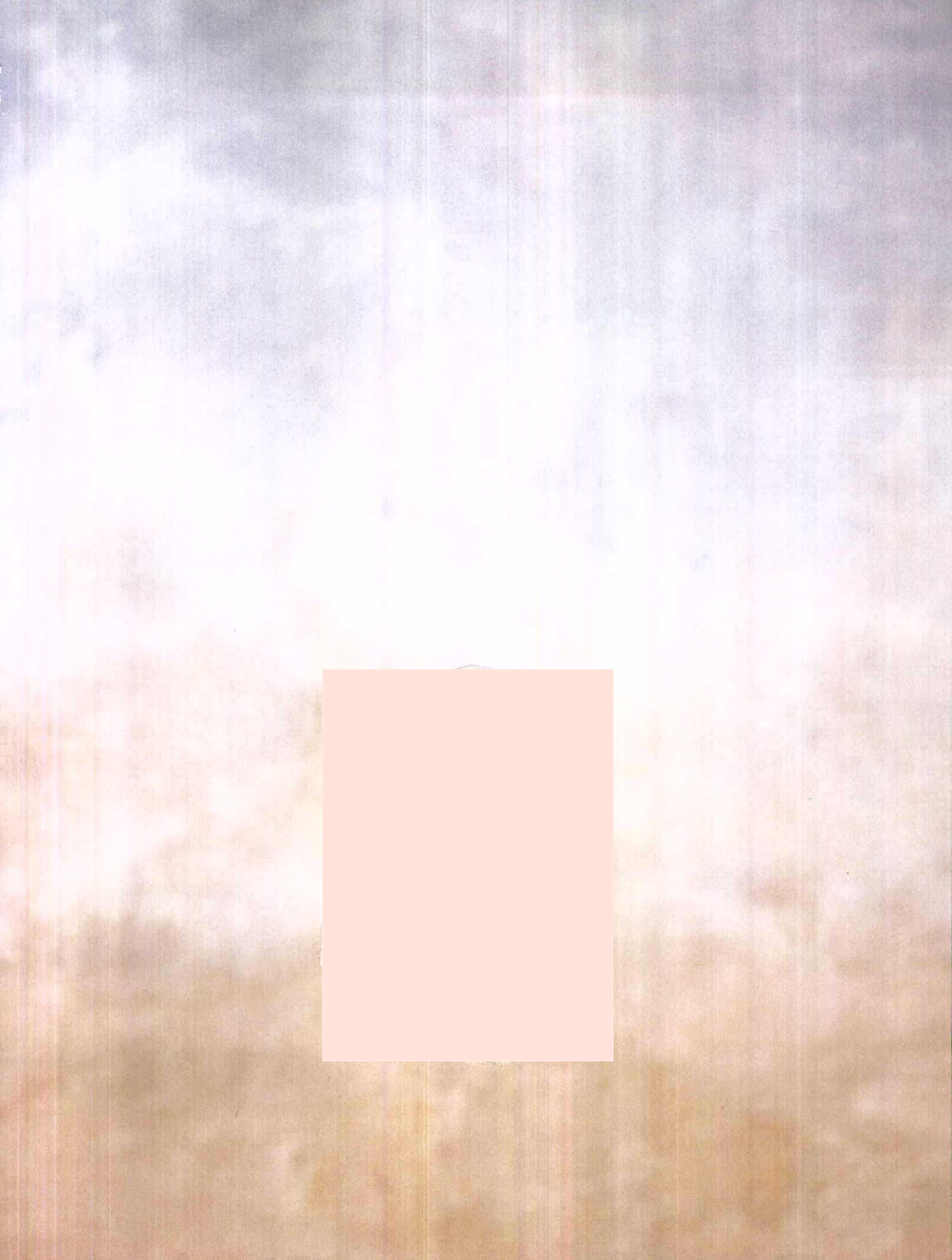
Release Date	Sales Period
March 6	February 1997
April 10	March 1997
May 8	April 1997
June 5	May 1997
July 10	June 1997
August 7	July 1997
September 4	August 1997
October 9	September 1997
November 6	October 1997
December 4	November 1997
January 8	December 1997
February 5	January 1998

Earnings Release Dates for Fiscal 1997

Release Date	Quarter
May 13	1st Quarter
August 12	2nd Quarter
November 11	3rd Quarter
February 26 (tentative)	4th Quarter

Security Analyst & Investment Professional Contact

W. C. Watkins	(972) 431-1972
Eli Akresh	(972) 431-2207



1996 Annual Report

J.C. Penney Company, Inc.
P.O. Box 10001
Dallas, Texas 75301

This Annual Report is printed on paper with a total recycled fiber content of not less than 50%, including 20% post-consumer waste.